IPF Investment Property Forum

The Journal of the Investment Property Forum
Issue No. 25
May 2014

Investment Property Focus

Property: picking up the pace

Clyde Gateway hosted IPF members on 27 March for a tour of the Commonwealth Games Area covering the Riverside East office development, the National Business District at Shawfield, the SMART bridge linking Dalmarnock & Shawfield, the show homes at the 2014 Games Village, the Rutherglen Low Carbon Zone, Clyde Gateway East Business Park, the Emirates Arena/Sir Chris Hoy Velodrome, Eastage and The Olympia.

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Welcome to the 25th edition of Investment Property Focus, which has been (fittingly!) restyled to mark the IPF's 25th Anniversary.

This April saw the publication of 'Property Market 2013: A Decade of Change', which updates the IPF research published in 2005. Paul Mitchell, who undertook the research on both occasions, picks up some interesting trends in comparing the markets in 2003 and 2013, not least that the commercial property investment market (now worth circa £364bn) has grown faster than the underlying stock of property due to owner-occupiers dis-investing and the opening up of the 'alternative' markets. The balance of ownership has shifted towards collective investment schemes and overseas investors, the latter accounting for 24% of UK investment property, with almost 75% of these holdings being in London.

This expansion of the property investment market is not reflected in most defined contribution (DC) pension funds, where, as Debbie Harrison and David Blake of The Pensions Institute explain, property has been classified as an 'alternative' asset, along with other illiquid investments, and the allocation to alternatives capped at levels of around 5%. However, their research found a move towards the inclusion of property as a core asset class in DC default funds. There are, however, still issues of daily pricing and liquidity to resolve. Gerald Blundell found some remaining antithesis towards property as a core investment when analysing the responses from 250 independent financial advisors (IFAs) during the six-year period that the IPF sponsored the 'IFA survey' – a steady 5% or so of respondents refused to recommend property at any risk premium – something, he suggests, that might be worthy of further research given the shift to DC funds.

The Nick Tyrrell Research Prize 2013 was awarded to a submission from Maastricht University. The research looked at the property investment approach, cost, and performance of almost 1,000 pension funds over a period of 20 years and, as outlined, found substantial differences in the investment approach of US and foreign pension funds, and between small and large pension funds. Entries for the 2014 Prize are invited by 31 May (see inside cover for details).

A major review of energy and carbon policies in the commercial buildings sector, sponsored by the IPF Research Programme, with other Property Industry Alliance members and the Government-led Green Construction Board will be published this month. Jon Lovell of Deloitte, outlines some of the key findings, which include the clustering of policies around the occupational phase of a building and the lack of focus on embodied carbon.

This edition of Focus also includes a number of updates on: (a) the progress made in resolving the problem of the mix of headline and net effective rents in the IPD rentals indices (Paul McNamara); and (b) regulatory matters – covering the role of a depository under AIFMD (Rachael Lyon), the implementation of EMIR (Bill Bartram), and the implications of the Financial Services (Banking Reform) Act (Charles Cattell).

The UK and European Consensus summaries appear as usual, with an overview of Dimitrios Papastamos's PhD thesis on the rationality of the UK Consensus Forecasts. The Forum Activities and Announcements section sits alongside a Who's Who of the IPF Executive – so now you know more about us!

Sue Forster
Chief Executive, IPF

The UK commercial property market: How big is it?

PAUL MITCHELL
Paul Mitchell Real Estate Consultancy

The IPF Research Programme has just published 'The Size and Structure of the UK Property Market 2013: A Decade of Change', which returns to the set of questions that the IPF addressed in 2005 – what is the value of commercial property in the UK; how is it distributed across sectors and the UK; who owns this property; and what is the size of the investment market? This new research adds two further questions – how does residential property compare with commercial; and, in a world where the ways of getting an exposure to property have become more fragmented, what is the beneficial interest in UK property of institutional investors such as insurance companies and pension funds?

The analysis draws heavily on the data collated by IPD and the Valuation Office Agency. But it also benefits from privileged access to detailed propriety information generously provided by organisations such as Real Capital Analytics (RCA) on individual property transactions, Property Funds Research (PFR) on individual funds, and Trevor Wood Associates on shopping centres.

Commercial property is defined on the basis that the building type is predominantly enclosed, is typically occupied by businesses, and is mainly privately owned. Defined this way, any commercial property that is either owned or occupied by the public sector is included. Incomplete developments and undeveloped land are excluded throughout. The definition incorporates retail (including restaurants and pubs), offices and industrial properties, plus miscellaneous 'other commercial' property such as hotels, leisure, conference and exhibition centres, purpose-built car parks, petrol stations, etc. It excludes health and education, museums and libraries, sports grounds, courts and prisons, heavy industrial plants, infrastructure and open structures, such as theme parks.

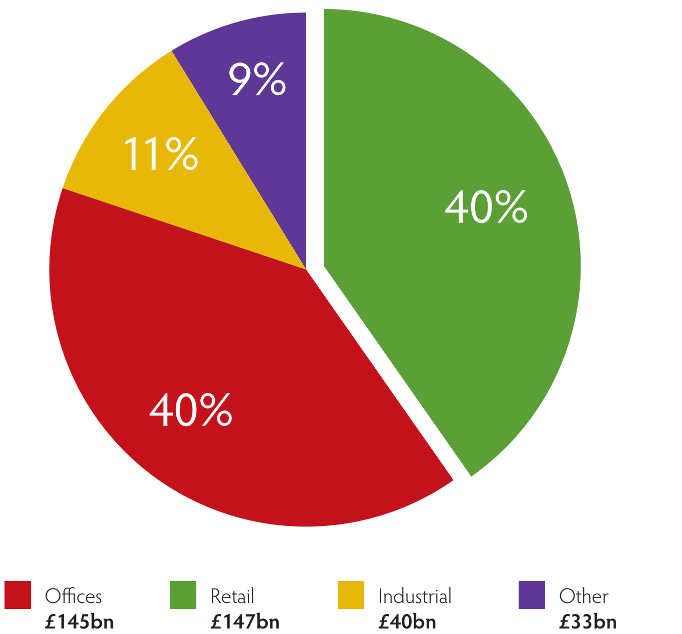
On the basis of this definition, the total value of UK commercial property is estimated at £647bn in mid-2013. By value, 45% of this property is retail (including pubs and restaurants), 28% is offices, whilst 18% and almost 9% respectively are industrial and 'other commercial'. Having generated all the growth since 2003, London now accounts for a little over a third of total value, which is well above its 23% share of GDP.

Size of the commercial property investment market

The UK commercial property investment universe in mid-2013 is estimated to be valued at £364bn. This is a 27% increase on the 2003 estimate and compares with the 11% increase in the total value of the UK commercial property universe. A shift away from owner-occupation towards renting, particularly through expansion into hotels and the opening up of new markets, has enabled this relatively strong growth in the invested stock. Overall, the proportion of the total UK commercial stock held for investment has risen from 50% in 2003 to 56% now.

Investment holdings increased across all sectors and most segments of the market (other than offices outside London) between 2003 and mid-2013. Holdings in the 'other' sector more than doubled but, as shown in Figure 1, retail remains the largest sector with £147bn, albeit with a lower share than a decade ago (40% of the total, compared to 43% in 2003).

Figure 1: **UK commercial investment property universe by sector, mid-2013**



Source: PMRECON using data from company annual accounts, IPD, ONS, PFR and RCA/Property Data

Investor types

As shown in Figure 2, overseas investors have displaced insurance companies to become the largest single investor type with £88bn of commercial property in mid-2013. Their ownership now accounts for 24% of UK investment property (and 14% of the UK's total commercial stock). Having more than doubled since 2003, their £88bn stake is the culmination of a consistently growing share and holdings growing at a trend rate of 8% per annum after property price growth. This investment, according to analysis of RCA data, has been led by overseas fund managers and sovereign wealth funds, who have each accumulated around £10bn (mid-2013 prices) since the end of 2003.

Almost three-quarters of overseas investors' holdings are in London. They are dominant in the City office market, now owning 56% of the total (invested and owner-occupied) stock, and also have substantial holdings in office markets in the West End and Midtown and the rest of London.

Other than in the City office market, this growth in overseas' investors holdings has not been at the expense of UK investors. As a whole, UK investors' holdings (totalling £277bn) have grown since 2003, even after property price inflation, and by more than the overall growth in the commercial property stock. Collective investment schemes, real estate investment trusts (REITs) and listed property companies, insurance companies and private property companies are all substantial UK investors.

The balance of ownership amongst UK investors has shifted since 2003, as Figure 2 indicates. UK collective investment scheme ownership has increased substantially (as quickly as foreign investors), helped by a shift in UK institutional investors' strategies towards indirect forms of property investment and as a result of greater investment by both overseas and UK 'retail' investors. This growth, however, is a product of the first part of the 2000s: holdings since 2009 have struggled to gain any sustained traction, with closed-ended funds in particular in decline.

REITs and listed property company holdings and those of private investors have also increased their ownership significantly. That said, five companies (British Land, Hammerson, Intu, Land Securities and SEGRO) now account for only two-thirds of the total for this category of investor, compared to their approximate 75% share in 2003. Over recent years, their holdings have become biased towards shopping centres, making them the biggest owners of this sector in the UK, and, like most UK investors, REITs and listed property companies have substantially reduced their exposure to City offices.

Insurance companies have been retrenching. Their non-linked life and annuity fund exposures have more than halved since 2003 as a result of asset allocators substantially reducing property weightings and a

Figure 2: **Investors in the UK commercial property market**

Investor type	Mid-2013 £bn	Change 2003-13 %	Mid-2013 share %
UK insurance company funds long term funds, unit-linked life & pension, managed property funds	41	-29	11
UK segregated pension funds own-account property portfolios of funded pension schemes	30	-1	8
UK & Channel Island domiciled collective investment schemes authorised and unauthorised property unit trusts, limited partnerships and similar	59	118	16
UK REITs & listed property companies listed on the main market of the London Stock Exchange	52	30	14
UK private property companies	50	0	14
UK traditional landed estates & charities	16	18	4
UK private investors including high net worth syndicates	10	27	3
UK other including local authorities' investments and the tenanted properties of the public house operators	18	23	5
UK sub-total	277	12	76
Overseas Domiciled outside the UK, e.g. sovereign wealth funds, but excluding those investing UK-sourced capital	88	113	24
TOTAL	**£364bn**	**27%**	**100%**

Sources: PMRECON using data from company annual accounts, IPD, ONS, PFR and RCA/Property Data

switch in strategy away from direct to indirect investment. Pension funds have also changed strategy in favour of indirects but they have also shifted towards international property and reduced their asset allocation to property.

UK private property companies remain substantial investors, with approximately £50bn of commercial property holdings. Canary Wharf Group / Songbird Estates is the largest single investor, with holdings of approximately £5bn, but half the total is in comparatively small companies, each with less than £100m of property. Companies' fortunes have differed wildly over the last 10 years, with many large companies strategically reducing their holdings, some winding-up or significantly reducing their ownerships (having over-borrowed in the mid-2000s), but with others taking advantage of depressed prices in the late 2000s to expand their portfolios. Private property companies are the largest owners of regional offices.

Amongst the smaller investors, traditional estates and charity portfolios have grown, helped by their bias towards the buoyant West End markets (they are the largest group of owners of central London retail), as have those of private individuals.

Commercial investment property by segment

There are significant differences between the structures of the property universe and the investment universe, and also between the overall investment universe and IPD's benchmark.

Standard retail (mainly shops and food stores) is the largest part of the property universe but accounts for a relatively small share of investment portfolios; most shops have values below the lot sizes at which mainstream investors will consider buying. Counter-balancing this, investors' portfolios are weighted more heavily in favour of shopping centres and retail warehouses: over 95% of shopping centres by value and 86% of retail warehouses are owned by investors.

Industrials outside London and the South East feature comparatively thinly in investors' portfolios (many of these will be either factories, best suited to owner-occupation, or small lot sizes well below most investors' thresholds). Similarly, regional offices are under-represented in investment portfolios.

Figure 3: **Largest investor type in each segment**

Segment	**Biggest investor type**
Central London shops	Traditional landed estates & charities (£4bn)
Rest of UK standard retail (including food stores, pubs, restaurants etc.)	Pub owners (£8bn), collective investment schemes (£7bn)
Shopping centres	UK REITs & listed property companies (£15bn)
Retail warehouses	Collective investment schemes (£11bn)
City offices	Overseas investors (£24bn)
West End and Midtown offices	Overseas investors (£18bn)
Rest of London and South East offices	Overseas investors (£14bn)
Rest of UK offices	Private property companies (£4bn), overseas investors (£4bn)
Industrials	Collective investment schemes (£9bn)
Other commercial	Overseas investors (£11bn)

Sources: PMRECON using data from company annual accounts, IPD, ONS, PFR and RCA/Property Data

'Other' commercial property represents the fastest growing sector of investors' portfolios, more than doubling in size since 2003. Including healthcare and education but excluding residential, the sector now accounts for 9% of portfolios. Expansion has been primarily focused on hotels, owned predominantly by overseas investors who have invested heavily in London hotels.

Currently predominantly publicly-owned, healthcare (including care homes) and education probably represent the greatest untapped source of investment opportunity amongst the alternative, non-residential sectors. This is largely dependent on whether public policy opens up these on a more substantial scale to commercial property investors.

Investors' portfolios remain London-centric. The capital's large, 46%, share of investment property is, however, only partly due to the higher values of properties in London. An aversion to the small lot sizes, characteristic of many regional markets, is an important factor. Such antipathy is held not only by domestic investors but also, more significantly, by overseas investors, whose average purchase prices tend to be around twice the size of domestic investors'. Cross-border investors across the world generally tend to favour capital cities.

IPD's UK index is estimated to cover around two-fifths of the investment universe, reflecting in particular a low representation of REIT and listed property company and private property company assets and, more significantly, the exclusion of the large amount of property owned by overseas investors from its UK index. The investment universe has a lower weighting in retail warehouses and retail as a whole than portrayed by IPD, and is more heavily weighted towards London offices (especially the City). The latter is because overseas investors' portfolios, which are not represented in IPD's UK Index, are heavily concentrated in this location.

With the portfolios of both overseas investors and private property companies (also under-represented in IPD's UK Index) having disproportionately high weightings in the sector, 'other' commercial property accounts for a relatively large share of the investment universe.

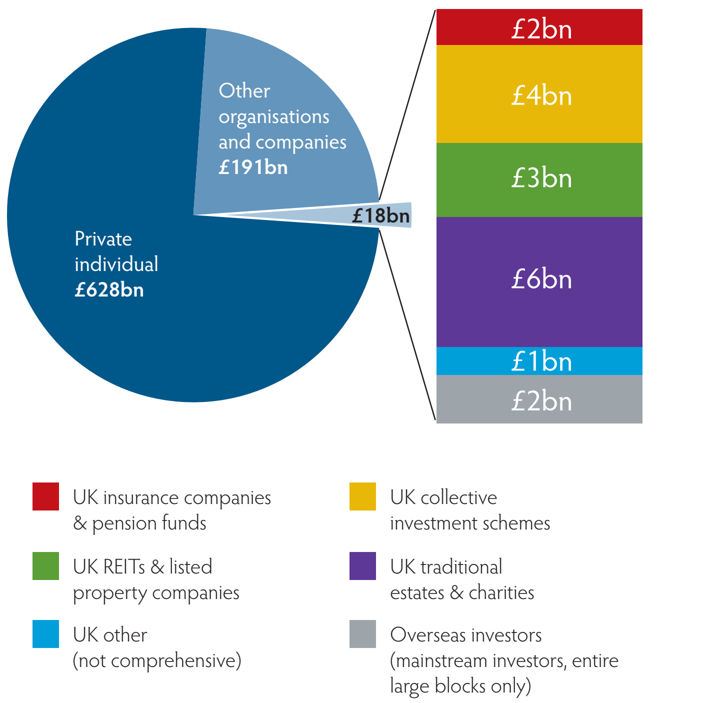
Other than a large under-representation of City offices, UK investors' portfolios do not differ substantially from the IPD benchmark.

Residential property

Residential property is potentially an area for new investment. The value of the UK's residential stock in mid-2013 is estimated to be £4,615bn, seven times the size of the commercial stock.

Almost all of this is privately owned, mainly by owner-occupiers but including about £837bn in the private rented sector. As shown in Figure 4, around 75% of this rented stock is owned by private individuals. Conventional commercial property investors at present own a tiny fraction (around 2%) of this £837bn stock of private rented residential property – £12bn in flats and houses, plus another £6bn in student accommodation. Traditional estates and charities, mainly through their ownerships in London, are the largest category of mainstream investor. Collective investment schemes and REITs and listed property companies also have sizeable portfolios.

Figure 4: **Ownership of the private rented sector, mid-2013**



Source: PMRECON using data from company annual accounts, the DCLG Private Landlords Survey 2010, IPD, ONS, PFR and RCA/Property Data

Conclusions

There are a number of key trends that have been identified and quantified in the report. One such trend is that the investment market has been able to grow faster than the underlying stock of property, as a result of owner-occupiers dis-investing, and, to a lesser extent, the opening up of alternative markets, such as healthcare, student accommodation and small niches, like youth hostels and marinas. New development, particularly out-of-town retail, has been a source of stock for investors. While overseas investors over the last 10 years have amassed substantial holdings of UK property, other than in the City office market, they have not squeezed out domestic investors, whose portfolios have grown in size over a period when commercial property prices have been flat.

Looking forward, an important observation is that investment grade stock in the two main commercial sectors (retail and offices) is now almost fully invested. With new development currently at low levels, this means that meeting the needs of new investors – mainly those from overseas if the trends of the last 10 years continue – will require the opening up of new markets.

Commercial property already represents about 85% of the value of the non-residential market, with most of the remainder in predominantly publicly owned services, largely education and healthcare, and smaller niches, such as courts, prisons and emergency services buildings. Public policy will determine the extent to which this stock is opened up to commercial property investors. This research has also revealed how untapped the residential sector is by commercial property investors.

Globalisation of property investment has made its mark on the UK market but steps taken in the other direction by UK investors have been limited: overseas investments only represent 10-15% of UK insurance company and pension fund property holdings, compared to more than half in their equity portfolios. Greater investment in this direction might create further opportunities in the UK for overseas investors.

The role for real estate in auto-enrolment defined contribution pension scheme default funds

DEBBIE HARRISON AND DAVID BLAKE
The Pensions Institute, Cass Business School

This article is a summary of the research undertaken by the Pensions Institute, Cass Business School, which was commissioned by the IPF Research Programme and jointly sponsored with the Association of Real Estate Funds (AREF), the European Public Real Estate Association (EPRA), and the Institute and Faculty of Actuaries. The full report, 'Returning to the Core: Rediscovering a Role for Real Estate in Defined Contribution Pension Schemes', was published in October 2013.[1]

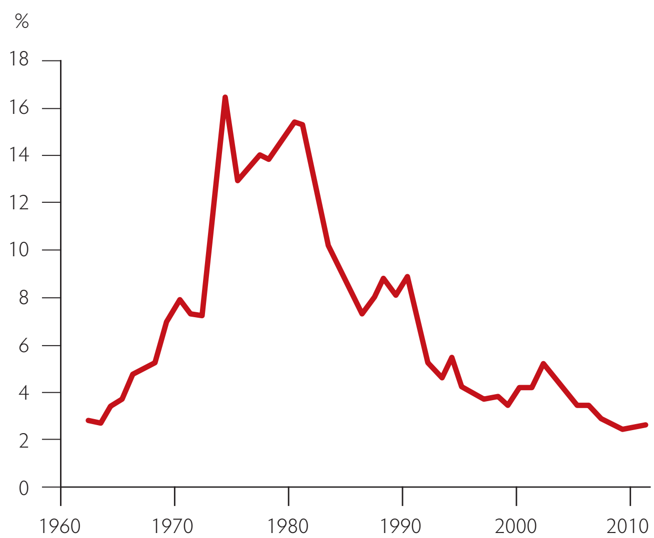
The Pensions Institute was commissioned to analyse and evaluate the role of real estate in the UK's defined contribution (DC) pensions market. The trigger point for this research was the introduction of auto-enrolment – the new system of pension scheme provision for private sector employees in the UK – which is being phased in by all employers between October 2012 and 2018. The most important feature of auto-enrolment schemes is the 'default fund', which is the multi-asset investment strategy designed for the majority of members who do not wish to make investment decisions.

The research took place over the period of 12 months leading up to September 2013. The findings are based on the analysis of reports and research, together with a series of more than 20 in-depth interviews with practioners in the DC and asset management markets.

Background

As shown in Figure 1, 40 years ago, real estate was a 'core' asset class in defined benefit (DB) pension funds, along with equities and bonds. It was also used as a core asset class in some of the early group DC schemes. But as DB declined in the private sector and DC gained ascendancy, real estate was reclassified by DC professionals as an 'alternative' asset, a collective term that includes asset classes whose common characteristic is that they are illiquid (to a wider or lesser degree), such as, commodities, hedge funds, infrastructure, and private equity, among others. Given that allocations to 'alternatives' have been capped at a fairly modest level (e.g. 5%) in most DC pension funds, this switch in classification has had a strongly negative impact on the allocation to real estate.

Figure 1: **UK pension funds real estate holdings as % of total net assets 1962-2012**



1 Returning to the Core: Rediscovering a Role for Real Estate in Defined Contribution Pension Schemes, by Debbie Harrison, David Blake and Tony Key, October 2013, available on www.ipf.org.uk

Yet real estate appears to be a very attractive asset to hold in a pension fund portfolio during both the accumulation stage (where contributions are being made) of a DC scheme and – in due course – the decumulation stage (conversion of the accumulated fund to a lifetime income in retirement). When pension scheme members are young, they need to invest in a multi-asset strategy that includes an appropriate proportion of growth assets: real estate (with its potential for capital appreciation) and equities are the key asset classes that deliver growth. As members age and approach retirement, they need to reduce the risk of sudden large adverse security market shocks by participating in some form of de-risking. There is a key role for real estate during this phase, because of its potential for generating stable inflation-matching cash flows linked to rising rental values.

Size of the DC auto-enrolment market

The research suggests that the DC auto-enrolment market will increase six-fold by 2030, from £276bn assets under management (AUM) pre-auto-enrolment (2012) to about £1.7tn. Several new DC schemes designed for auto-enrolment have selected real estate as the first illiquid or 'alternative' asset class to be incorporated as a core component of default multi-asset investment strategies (default funds) with weightings of 5-20% and an average of 10%. Default funds will be used by an estimated 90-97% of members in aggregate, which means that if this trend is adopted across the market, real estate AUM in these funds might be worth £170bn by 2030.

The National Employment Saving Trust's (NEST's) decision in 2013 to allocate 20% to real estate in both its principal and ethical default funds is very significant, although it is important to note that the 20% weighting in real assets will include other illiquid asset classes in due course, such as infrastructure. This move by the national multi-employer auto-enrolment scheme demonstrates that the perceived barriers to real estate in DC – daily pricing, liquidity and cost – can be overcome within an overall cost constraint that achieves a member charge of 0.5% p.a. over the long-term.

Current position of real estate vis-à-vis DC auto-enrolment

The main real estate sub-classes favoured by auto-enrolment schemes are actively managed funds of UK real estate and passively managed funds of global listed real estate companies – typically in the form of real estate investment trusts (REITs). Real estate derivatives are also emerging as a possible sub-class. The potential for other sub-classes, such as funds of real estate debt, has yet to be tapped, but might have an important role to play in the pre-retirement phase of default funds.

The research suggests that there was no clear consensus about the most appropriate asset allocation model for determining the optimal weighting to real estate relative to other asset classes. There was widespread criticism of mean-variance optimisation models. Yet the alternative proprietary models in use are not accessible to independent scrutiny and hence lack transparency. This is a significant point, since, unlike in DB, where the sponsoring employer is ultimately responsible for meeting the liability for the salary-linked pensions, in DC, the investment risk falls solely on the individual members. Currently, DC scheme members have little idea what the asset allocation selected by any given default fund means in terms of the ultimate pension in retirement.

Should DC schemes' default fund have a weighting in real estate?

The research found a clear trend towards the inclusion of real estate as a core asset class in DC default funds, especially in the new schemes designed for auto-enrolment. These schemes have chosen real estate not only to diversify investment risks and increase risk-adjusted returns, but also for its growth potential during the accumulation stage and its ability to generate reliable inflation-linked cash flows during the decumulation stage.

The weighting to real estate, where it was included in auto-enrolment schemes, varied considerably – between 5% and 20%. The analysis by the research team of portfolio optimisation models in use did not, however, did not give a clear-cut answer as to what the optimal weighting in real estate should be. Nevertheless, the increased use of asset liability modelling techniques in the DC world should enable the attractiveness of real estate in both the accumulation and decumulation stages of a DC pension scheme to be more fully recognised.

Impact of the requirement for liquidity

DC platforms currently require daily pricing and liquidity for all assets included on the platform. However, this is not a regulatory requirement and means that asset classes that have a potential role in improving outcomes for DC members might be excluded from the default fund. There is no doubt that the need for a relaxation of the daily dealing/pricing requirements for illiquid asset classes is crucial if default funds are to achieve their optimal level of diversification.

The use of real estate in default funds should also open the door to other illiquid assets, such as infrastructure and commodities, which together might offer a strong inflation-hedging instrument.

Real estate professionals vs DC professionals

While the prognosis overall for real estate in DC schemes is positive, there is currently a wide gap in the understanding that real estate and DC professionals have of each other's positions. On one side, real estate asset managers argue that there is a major disconnection between what DC default funds want and what they need. On the other side, DC professionals argue that real estate asset managers tend to over-engineer their funds and concentrate too much of their marketing presentations on the sub-classes and the underlying holdings. The DC approach, by contrast, typically is to focus on high-level asset allocation and to use funds that offer the potential for market average (passive) or market-plus (smart beta) returns.

This disconnection between DC professionals and the real estate market is far from unique – it extends to other managers of 'real asset' funds, such as infrastructure and commodities. Arguably, real assets (i.e., those that match inflation) are essential to the success of auto-enrolment default funds, but they need to be delivered in a DC-friendly format, which requires a new approach. There is an urgent need for the two sets of professionals to resolve these issues.

The 2014 Budget

The Budget on March 19 2014 will have a significant impact on DC pensions, although the main proposals are subject to consultation and will require legislation before implementation in April 2015. The most dramatic change is that the government aims to remove all restrictions on how much can be drawn from age 55 and there would be no requirement to annuitise any part of the pension pot. Withdrawals would be taxed at the marginal rate of income in any given year.

It is not known how people will respond to these new freedoms. At one (very unlikely) extreme, people might decide to withdraw their entire fund at age 55. This would mean that DC pension schemes would have to prepare for complete liquidation at this age, which would limit the investment in illiquid assets such as real estate to members who are younger than 55. At the other extreme, people would realise that their pension pot has to last until they die and they would be looking for the most cost-effective way of achieving this. Under this scenario, people are likely to look to draw a regular income from their fund – possibly via a scheme drawdown facility – which would maintain some weighting in growth assets, while also holding the kind of assets that produce a regular income. If most people follow this route – which we anticipate is the more likely scenario – then real estate, with both its growth and income-producing potential, will have a strong future in both the accumulation and decumulation stages of DC pensions.

AIFMD update – the role of a depositary

RACHAEL LYON
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The final deadline for implementation of the Alternative Investment Fund Managers Directive (AIFMD) is 22 July 2014. One of the Directive's requirements is that an alternative investment fund manager with assets under management of over €100m, if leveraged, or €500m if not, must appoint an independent regulated depositary in respect of each alternative investment fund it manages. The depositary has a number of responsibilities including cash monitoring, due diligence, verification of ownership of assets and oversight. As the deadline draws near, there are still a number of interesting challenges and differences in approach for the fund management industry.

From an implementation perspective, the cash monitoring for entities below the alternative investment fund (AIF) level has been one of the key points of discussion for fund managers, lawyers and depositories for some time. If one reads Article 86 of the Directive, cash monitoring would seem to apply only to the AIF level and not to entities below it and there appears to be increasing momentum in the market to support this interpretation, especially as the reduction in substantive testing below the AIF makes it less intrusive for the fund manager. However, some of our clients have been advised to assume that AIF cash monitoring includes entities below the AIF.

There also remains confusion amongst some fund managers as to whether the depositary role is tied into acting as administrator to a fund. Many managers do not want to be tied to the same service provider for administration and depositary. In practice, the overlap between the two functions is limited primarily to cash monitoring, since the verification, safeguarding, monitoring and oversight roles do not form part of the administrator duties. In fact, the Financial Conduct Authority (FCA) requires depositories to have a Chinese wall between the two functions – so funds that are using the same organisation for both should understand how the organisation achieves a balance between segregation and integration.

On a different note, there are a number of non-EU managers coming to the fore with the intention of marketing their funds in Europe. They are exploring opting into the Directive so as not to have to rely on the unpredictable private placement rules. They therefore need an EU depository, which can be based anywhere in the EU since AIFMD does not require funds to use a country specific depository, i.e. if the fund is marketed in Germany, there is no requirement to use a German depository. This obviously presents an opportunity for UK-based depositories.

The good news is that there is far more clarity on how the role of depositary works but there are still some issues to resolve over the next couple of months.

Risk premia: The reward for taking risk

GERALD BLUNDELL

Risk premia matter. They are the reward to investors for moving up the risk curve from whatever is regarded as the risk-free rate (RFR). They are important because a measured estimate of each asset's risk premium is an essential input to quantitative asset allocation. Also, taken with the RFR itself, the premium sets the minimum hurdle return required by investors. Note though, it is by no means certain that investors will get what they want.

The problem with risk premia is that they are difficult to measure since they are expectations rather than reality. Many analysts have inferred the value of risk premia by inspecting past returns but this is the outturn, not the expectation; foresight is rarely perfect.

Traditionally property's risk premium was considered to be about 2% (200bps) over long-dated gilts, still many people's 'go to' for the RFR. In recent years, shortening leases and raised awareness of depreciation have led many to raise their estimates, effectively re-pricing the risk of property.

Survey

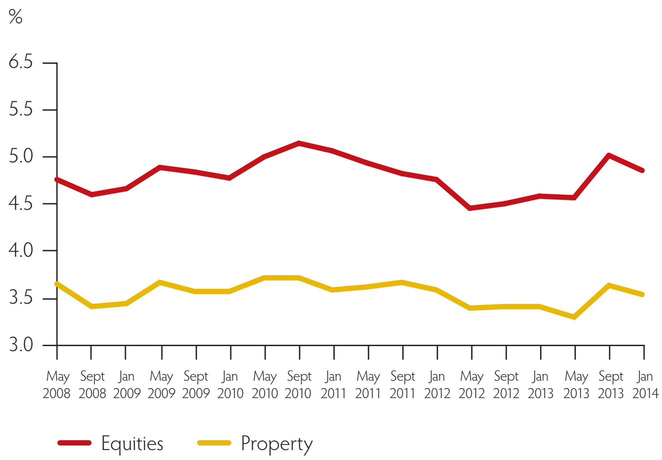
In 2008, the IPF began to sponsor an empirical survey[1] of 250 independent financial advisors, asking:

"What minimum threshold rate of return would your clients require above a risk free rate from their commercial property investments?"

Figure 1 shows the mean response to this question, asked on 18 occasions over the past five plus years. This average has proved remarkably stable through time, fluctuating within a narrow range of 3.3% to 3.7%, with an overall average of 3.55%. Why should the property risk premium have proved so stable when gilt yields were falling from 5% at the height of the crisis in 2008 to 2.7% by January 2014? Remember, this was also the period when property returns ricocheted between -22.5% (2008) to +15.2% (2010).

One possible explanation is that the results are based on the career experiences of the respondents, which probably extends over a period averaging 20 to 25 years. The similar behaviour of the equivalent set of results for equities (see Figure 1) suggests that the cause is not property specific. The value of 3.5% is not derived from past property returns: over the 27-year period since end 1986, when the

Figure 1: **IFA Survey mean risk premia requirements**



Source: IPF/AREF IFA Consensus Surveys

1 Funded by AREF since May 2013

IPD Monthly Index started, property has under-performed the RFR, returning 8.7% pa, as against 8.9% pa for gilts. Arguably, gilts are not risk free, but they are probably less risky than property if they are held to redemption.

Perhaps the results reflect implicitly expected inflation. This has hovered around the 3% pa mark for most of the 2008-13 period. Since property is a partial hedge against inflation, IFAs might want to see their inflationary expectations covered by property returns before they would recommend their clients to invest.

Alternatively, the 3.5% premium might represent compensation for higher costs, depreciation-related expenses, relative tax treatment and illiquidity. However, property's role as a partial hedge against unexpected inflation should offset some of these factors. It would be an interesting research exercise to try and quantify these factors and see how well they correlate with the survey results.

Asset classes compared

Figure 1 also shows the trend in the equity risk premium derived by the survey. It fluctuates between 4.5% and 5%, averaging 4.8%, typically 120bps over property. Sitting between bonds and equities, property's premium reflects its bond/equity hybrid nature. How do these risk premia compare with prospective long-term returns based on current yields?

Figure 2 sets out a simple return projection, illustrating one of the uses of these risk premia. It adds expected income growth to current yield and deducts costs. No allowance is made for changes in the capital multiple. Prospective returns to gilts after costs of, say, 10bps pa are 2.6% (10-year tenor) if held to redemption. With a risk premium of 3.5%, this points to a required, or hurdle, return on property of just over 6%. What is on offer?

Figure 2: **Long-term forward asset returns**

	10-year Gilts %	Property %	Equities %
Yield	2.7	7.1	3.7
Income growth	0.0	2.3	4.3
Costs	0.1	2.5	1.5
Net return	2.6	6.9	6.5
RFR + IFA premium	2.6	6.1	7.2

Sources: Barclays, IPD Monthly Index, FTSE 25 March 2014

According to the IPD Monthly Index (February 2014), property is priced off a yield of 7.1%. The latest IPF Consensus Forecast is for rental growth over the next five years of 2.3% pa, which, given inflation expectations of 3% pa, is above to its long-term average. Setting aside lease structure, this points to a prospective return of just under 9% pa, if yields stay the same. From this must be deducted costs, estimated as follows:

- Portfolio management: 45bps
- Capital spend and rental depreciation: 100bps
- Transactional costs, assuming 15% annual rotation: 110bps

In all, costs amount to about 250bps, reducing property returns to 6.9% pa, some 430bps ahead of gilts. At this level, if the survey results are representative, property looks to be reasonably priced relative to its RFR.

Property looks cheap relative to equities. In addition to a yield of 3.7%, we can expect dividends to grow in the long run by 1.3% pa real (based on trends 1986-2013) or 4.3% nominal, making a gross long-run return of 8% pa. Deducting 150bps to allow for manager fees, rights dilution and rotation, results in a net figure of 6.5%, a margin of under 4% over the RFR and 0.5% pa below the property figure.

Of course, it is not likely that yields will remain constant. There is a widespread expectation that the RFR will rise and it is a moot point whether property yields will rise with it. If they do not, and expected rental growth fails to rise further, then property will start to look less attractive to our sample of IFAs.

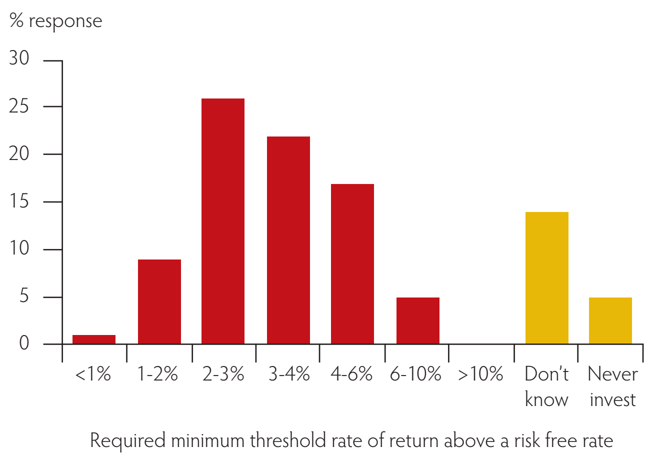
NOTE: The behaviour of property yields in an environment of rising interest rates is the subject of current research by the IPF, to be published in Spring 2014[2].

The dispersion of risk appetites

Although the average results from the IFA survey were stable through time, there was significant dispersion across individuals (Figure 3 shows the dispersion across all 18 surveys). The majority of respondents were over 100bps away from the sample mean and as might be expected, there is a tail to the right; no IFAs saw property as less risky than the RFR! However a steady 5% or so of respondents absolutely refused to recommend property at any risk premium. Whether this is due to education, experience or pure prejudice is unknown. It might be worthy of further enquiry if property is to overcome the apparent objections of some defined contribution (DC) providers.

The significance of the dispersion in Figure 3 is that, for a majority of all respondents, including ‘don’t knows and nevers’, to consider investing their clients’ money into some form of property, the risk premium probably has to be over 4%, which on the evidence of Figure 2 it now is.

Figure 3: **Dispersion of risk premia**



Source: IPF/AREF IFA Consensus Surveys

Also interesting is the persistently wide range in individual responses. It seems that these respondents are resisting the institutional trend to cluster closer to benchmarks and methods of analysis. The convergence in approach to risk is an oft-cited contributory cause of the 2008 crisis. So it is refreshing to uncover evidence of a diverse, albeit probably subjective, approach to pricing risk.

Concluding comments: More questions than answers!

Six years of the survey is too short for meaningful analysis to arrive at firm conclusions. But there are several areas of further research that suggest themselves from this set of survey results. Would it be possible to quantify the cost and risk factors in property relative to the RFR, so as to unpack the composite risk premium into its component parts? Would it be worth finding out more about the attitudes of IFAs to property, bearing in mind the shift away from DB to DC pensions? Should a distinction be drawn between the regional markets and London, which seems to be driven increasingly by a different rationale?

2 The Implications of Rising Bond Yields on Property Equivalent Yields

EMIR Update

BILL BARTRAM
Independent Risk Management Solutions Ltd

The history of the European Markets Infrastructure Regulations (EMIR) is well documented and we are now within the implementation phase of these regulations. EMIR itself came into force on the 16 August 2012, imposing requirements for Classification, Portfolio Reconciliation, Timely Confirmation, Dispute Resolution, and trade reporting on all users of over the counter (OTC) derivatives (for hedging purposes or otherwise). The main crux of EMIR, though, is that it forces certain users of derivatives to maintain margin accounts for their derivative trades by forcing them into central clearing with an authorised central counterparty (CCP).

Trade reporting

The trade reporting obligation began on the 12 February 2014 and all derivatives that had been entered into post-16 August 2012, and that were still in existence, had until the end of the next day to be reported to an authorised trade repository. Trades in existence prior to August 2012 have until the 13 May 2014 before they too must be reported, while those trades that where in existence in August 2012 but were cancelled/expired before 12 February have until 12 February 2017 before they must also be reported.

For many, this has been very difficult to achieve. Whilst some banks have been very proactive with respect to EMIR, others have struggled. This means that companies that were relying on delegating their reporting obligations to their bank counterparties may have missed the 13 February deadline. There are also a handful of banks that are not offering to trade report on behalf of their clients and clients of those banks must therefore outsource the requirement to third parties or bring this function in-house.

It should be noted that, even if you delegate the trade reporting, you remain liable for the accuracy of the data that has been reported on your behalf. In many cases, the only way to verify this data is to register with the appropriate trade repository yourself and download the reports relating to your specific legal entity identifier (LEI). Mercifully, almost all banks have selected DTCC as their repository of choice, so you should only have to register with one trade repository to have access to all of your reports.

Daily exposure reporting

11 August 2014 is the start date for daily exposure reporting for financial counterparties (FC) and non-financial counterparties above the clearing threshold (NFC+). This will be a major headache for clients of banks who will not undertake the trade reporting on behalf of its clients!

Clearing obligations

Finally, ESMA has begun to receive notification from local regulators of authorised central clearing parties (CCPs), which is the first step towards determining the respective dates for clearing obligations. This means that new derivatives traded by FC or NFC+ entities may have to be transferred to a CCP depending on the remaining maturity of the contract when the clearing obligation commences. This is a process known as ‘front loading’. Currently, only Nasdaq OMX has been authorised for interest rate derivatives for EUR, SEK, DKK & NOK. However, one would have to assume that GBP will not be far behind.

A global perspective on pension fund investments in real estate

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The article below is a summary of the authors' research paper 'A global perspective on pension fund investments in real estate', which has been awarded the 2013 Nick Tyrrell Research Prize. The Prize, established by industry associations INREV, IPF and SPR to commemorate Nick Tyrrell's major contribution to the industry's thought leadership, recognises innovative and high-quality, applied research in real estate investment.

Real estate is the third-largest asset class for institutional investors. To gain exposure to real estate, there are often (multiple) layers of investment management and costs between the investor and the assets, and the true performance of the real estate investments at the level of the institutional investor may be therefore be different from what empirical studies on the performance of real estate suggest.

Research into the performance of pension fund investments in real estate is scant. This paper employs a unique set of data, the CEM global database, to study the real estate investment approach, cost, and performance for a global panel of almost 1,000 pension funds over a period of 20 years. The data enables a comparison of different investment styles and approaches and a consideration of what these deliver for the bottom line of pension funds.

Pension funds' exposure to real estate

The CEM pension fund database covers 884 pension funds in the US (536), Canada (244), Europe (86) and Australia/New Zealand (18). The dominance of US and Canadian pension funds in the database reflects CEM's North American roots. The average size of all the funds within the database is US$8.26bn, with the European funds alone averaging US$23.64bn. The researchers had data for the period from 1990 through 2009, including information about allocation, benchmarks, investment style and approach.

Figure 1 shows the asset allocation of the global pension fund industry in 2009. While equities and bonds dominate the portfolios, real estate is the most important asset class among alternatives, with an average allocation of 5.1% in 2009.

Most pension funds (for between 70% and 80% over time) invest in real estate in some form. In 2009, 75% of US funds were invested in in real estate, compared with 60% in Canada, over 80% in Australia/New Zealand and 95% of the European funds. The very high percentage for Europe may be explained partly by the fact that only the larger European pension funds report to CEM. The majority of the pension funds' holdings (over US$240bn) were private real estate investments. Holdings in listed property companies, such as REITs, totalled US$74bn, corresponding to more than 11% of the FTSE EPRA/NAREIT Global Index in 2009.

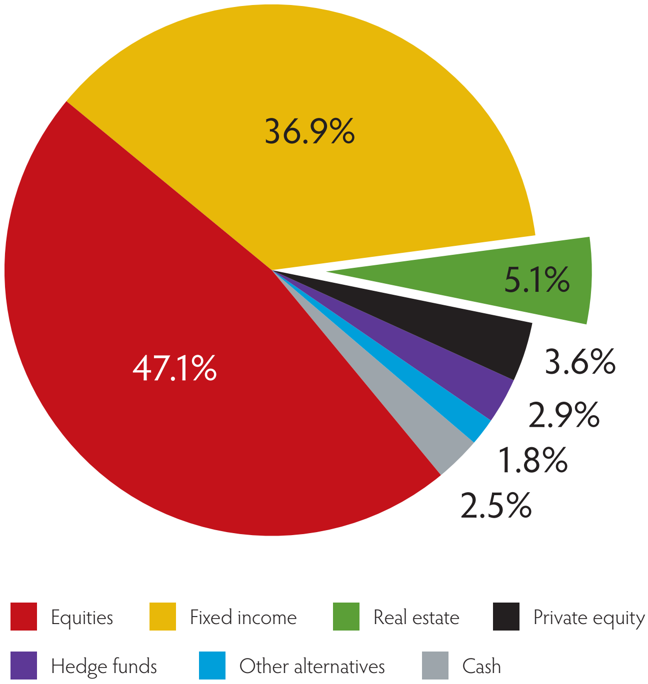
The researchers found that over the 10-year period from 2000 to 2009, indirect real estate investment was gradually gaining favour, such that around 30% of global pension funds held shares in listed property companies in 2009. However, the variation across regions was substantial. The US was close to the global trend, while only 15% of Canadian funds invested in listed real estate. That was in sharp contrast to Europe and Australia/New Zealand, where more than half of the pension funds were actively investing in indirect real estate.

The researchers looked at whether the decision to invest in real estate directly or indirectly was related to the size of the fund. Indirect real estate would seem particularly suited for smaller pension funds as, even with relatively small investments, it is possible to build up well-diversified property exposure through listed property companies at a global scale. The analysis (see Figure 2) was somewhat surprising as, of the smallest pension funds investing in real estate, less than one fifth invested indirectly. Furthermore, for every subsequent quintile, the percentage of indirect real estate investors increased, reaching about 40% for the pension funds in the largest quintile. This is contrary to intuition and has important implications for the performance of pension fund investments in real estate.

The other choice that pension funds have to make when implementing their real estate strategy is whether to opt for internal management, external management, or both. The researchers found substantial differences between US funds and their foreign peers, with only 10% of the former investing internally, compared with around 40% of the latter choosing this approach. Pension fund size is unlikely to be an explanation for this: the US pension funds are, on average, larger than those in Canada and Australia/New Zealand.

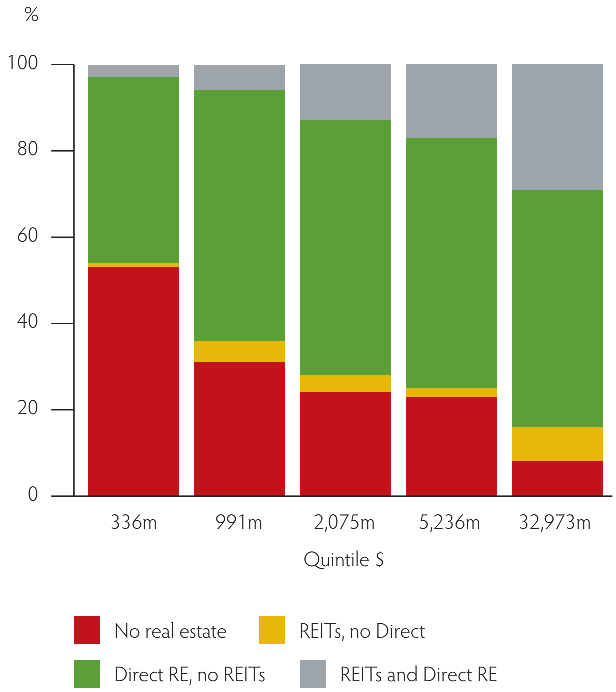
External management used to be far less popular in the rest of the world but it is gaining ground, and the percentage of pension funds using external management in real estate increased from 60% in the 1990s to 80% in 2009. As one would expect, the smallest pension funds that invested in real estate were most likely to use external management, and as the funds increased in size, the likelihood of using internal management (at least in part) also increased. However, 60% of the funds in the largest quintile still opted exclusively for external management, and a further 20% combined internal and external management.

Figure 1: **Pension fund asset allocation – 2009**



Source: CEM Benchmarking Inc

Figure 2: **How funds invested in real estate (per size quintile)**



The analysis points to the dominance of external management, regardless of whether institutional investors are large or small. So what implications does this have for costs and performance?

Costs and performance

From the perspective of the participants in a pension plan, the only valid reason to put additional layers of intermediation between the plan and the cash-flow producing assets is that these layers add value in terms of net returns – see Figure 3.

Direct real estate investments generated a net return of 5.88%, and, on average, underperformed the benchmark. REITs did much better for pension funds, during 2000-09, in three ways: the gross return was higher (10.92%), the cost wedge between gross and net was lower (29 basis points), and the benchmark-adjusted return was positive (although not statistically significant).

Figure 3: **Pension fund performance in real estate**

	All assets	Subcategory		Approach		
		REITs	Direct RE	Internal management	External management	Fund of funds
Gross returns	7.00 [9.41]	10.92 [10.21]	6.70 [8.40]	7.77 [11.20]	6.82 [9.17]	6.72 [7.85]
Net returns	6.19 [9.43]	10.63 [9.70]	5.88 [8.54]	7.51 [11.21]	5.98 [9.31]	4.95 [7.86]
Net benchmark-adjusted returns	-0.70 [9.35]	0.52 [10.80]	-0.86 [10.11]	0.90 [10.85]	-0.98 [9.42]	-5.38 [15.42]

Note: Time series averages of cross-sectional mean returns in percentages for the 1990-2009 time period (for fund of funds 1995-2009). Standard deviations of the returns are in brackets.

In terms of investment approach the funds managed internally did better than externally-managed funds and fund of funds. The internal approach had a gross annual average return of 7.77%, of which 7.51% was actually delivered to the pension plan, so annual costs were only 16 basis points. Internal mandates also outperformed their benchmarks, on average.

Looking at the added value of external managers, the results were less favourable. Not surprisingly, the cost wedge between gross and net returns was higher than for the average internal mandate; an average of 84 basis points. This implies that it would be difficult for external managers to beat the net return of internal benchmarks, even if they were able to extract a superior gross return from the real estate assets. However, the average annual gross return on external mandates was almost a full percentage lower than for internal mandates, and the annual net performance difference was 153 basis points. On average, external managers underperformed their benchmarks by 98 basis points, but due to the large variation in that performance, this is not statistically significant.

For fund of funds, the picture was even worse. Their average annual costs were 177 basis points, and their average gross return was lower than that of external managers. So, even before costs, their selection efforts did not seem to add value. The net result was that the average fund-of-fund manager underperformed the benchmark annually by 5.38%, although the variance in performance was so large that this underperformance is not statistically significant.

Comparison of US and non-US pension funds

As highlighted above, there were substantial differences in real estate investment approach of US and foreign pension funds, and between small and large pension funds. In order to assess the consequences of these choices in terms of costs and performance, the pension fund sample was split again into quintiles, but this time based on the size of their real estate investments – see Figure 4. In terms of costs, there were obvious advantages of scale: for US pension funds, the average annual costs were about twice as high for the funds in the smallest quintile as for those in the largest quintile, and this difference is statistically significant, with a t-value of 5.42. Costs decreased monotonically from smaller to larger quintiles, with the difference being especially significant between quintiles 1 and 2.

Figure 4: **Regional effects and economies of scale in investment costs and performance**

Quintiles on real estate assets size	Average real estate assets size US$m	Investment costs bps			Net benchmark-adjusted returns %		
		US	Non-US	t-test	US	Non-US	t-test
1 (Smallest)	12.96	132.95	64.77	4.87***	-1.70	-0.80	-1.34
2	51.88	92.17	60.49	6.55***	-1.68	0.14	-1.99**
3	132.45	88.32	42.65	14.79***	-1.29	0.59	-2.39**
4	359.74	87.31	37.05	12.43***	-0.81	-0.30	-0.61
5 (Largest)	2,835.29	66.56	29.50	15.23***	0.43	2.66	-2.76***
t-test		5.42***	9.88***		-3.29***	-4.09***	

*Note: The t-test row presents a t-statistic of the difference in costs and net benchmark-adjusted returns between the lowest and highest quintile. The t-tests columns measure the difference in costs and net-benchmark-adjusted returns between U.S. and non U.S. pension funds belonging to the same quintile. We report significance levels with *, ** and ***, which correspond to 0.10, 0.05 and 0.01, respectively.*

For non-US funds, there are also significant advantages to scale, but costs are at a very different level compared to what US pension funds are paying. In four out of five quintiles, the foreign funds paid less than half of what their US peers did for their real estate investments. The difference is highly significant in all quintiles. In other words, real estate investments for small pension funds are expensive, especially in the US.

Figure 4 shows that the returns to scale are also obvious in the benchmark-adjusted returns: for US funds there was a monotonic increase in net return going up in quintiles, with a 1.70% average underperformance for the smallest quintile and a 0.43% average outperformance for the largest quintile. The difference is highly significant, with a t-value of -3.29. For non-US pension funds, there is a generally positive relationship between real estate portfolio size and performance. The difference in performance between the smallest quintile and the largest quintile is even larger, and the statistical significance a bit stronger.

For pension plans in the US, the higher costs are reflected in a lower net performance than their foreign peers: on average, they underperformed in each of the quintiles, although the performance difference was not always statistically significant. The non-US funds in the largest quintile seem to outperform their benchmarks.

Implications of the analysis

The research found that generally larger pension funds have lower costs and better performance in real estate investment. This may be due to larger funds having greater negotiating powers in terms of both costs and the real estate transactions themselves. Larger funds can also commit more resources to monitor external real estate investment managers or even establish internal divisions, which is positively linked to performance.

Another notable finding of this study is that US pension funds performed relatively poorly. They had significantly higher costs than their peers in Canada, Europe and Australia/New Zealand, and their performance was weaker. This cannot be explained by size: on average, the US pension funds in the sample were relatively large. The research suggests that the weaker performance is due, at least in part, to the higher propensity of US funds to opt for external management or fund of funds. Part of the weaker performance can probably be explained by the fact that they were much less likely to opt for internal management than their foreign peers.

The implications of these findings are as follows:

- Additional layers of real estate investment management are costly and are not generally associated with better performance for pension funds. Pension funds should therefore avoid disintermediation and aim for the shortest possible investment chain;
- Size matters: large pension funds face lower costs, and generally perform better. This is both due to a greater reliance on internal management and likely also to a better bargaining position vis-à- vis external managers. Smaller pension funds should consider relying more on investments in REITs and other listed property companies, providing low-cost access to property exposure all over the world. Moreover, listed property companies almost always have internal management, reducing the conflict of interest inherent in externally-managed real estate funds;
- Smaller pension funds could also team up with other pension funds, creating internally-managed real estate entities together. In the Netherlands and Canada, there is significant experience with this approach. For example, in 2000 the pension funds of KLM (Royal Dutch Airlines) and Hoogovens (Dutch Steelworks, currently Tata Steel) bundled their real estate portfolios into one entity, Altera, which is internally managed: the shareholders own both the assets and the management. Costs are kept low: Altera charges 30 basis points, while the standard fee for externally-managed funds in the Netherlands is over 100 basis points. Since then, 26 other Dutch pension funds have become shareholders, often by swapping their direct real estate assets for a stake in the fund. This creates additional advantages to scale;
- The significantly higher costs of US funds than their global peers seemed to be due to their greater reliance on external managers. Cost cutting and tougher negotiations with external managers should, therefore, be a priority for US pension funds if satisfactory performance on their real estate investments is to be attained; and lastly
- Pension funds should incorporate the practical implementation issues of real estate investment when deciding whether to invest in real estate in the first place. The research suggests that a pension fund that is not able to opt for the internal approach, and is not willing to invest indirectly, should seriously reconsider any allocation to real estate at all, given the relatively poor net returns generated by external managers and fund of funds, even if the theoretical return-risk trade-off for real estate seems favourable.

NOTE: The researchers thank CEM Benchmarking Inc. in Toronto for providing the CEM database and the Real Estate Research Institute (RERI) and the University of Toronto's International Centre for Pension Management (ICPM) for financial support. Nils Kok is supported by a grant from the Dutch National Science Foundation (NWO).

Update on the net effective rents initiative

PAUL MCNAMARA
IPF consultant

IPD information has revolutionised how property investors operate. It helps fund managers understand absolute and relative fund performance and researchers describe and forecast market trends.

However, IPD's rental growth indices are constructed from a varying mixture of headline and effective rental values, which makes their interpretation uncertain. While this does not have any implication for reported total returns, it does have consequences for the analysis of market rental performance and forecasting of future rental movements.

Given its mission to promote property investment market efficiency, IPF has been supporting research into finding a solution for this important issue. This paper briefly outlines the underlying issue, reports on the outcomes of the Forum's recent industry consultation into proposed solutions to it and, finally, presents the steps now being taken to resolve it.

The issue

The origins of this issue lie in the increased variation in UK lease terms since the 1980s. Negotiated rents have become less central to leasing deals as rent-free periods, landlord contributions and other 'incentives' have grown in importance.

When reporting rental value, valuers can either judge what the negotiated ,'headline', rent would be or they can deduct from this the value of any likely incentives to establish an 'effective rent' figure. However, because there is then little consistency in how such rental valuations are entered into valuation software, this has become an issue for IPD.

Research by University of Reading[1] has shown that IPD is currently supplied with a varying cocktail of provable, achievable, headline and effective rents, from which it is then forced to fashion its rental growth indices. For some, these data impurities lie at the heart of a perceived smoothing of the rental cycle, as recorded by IPD, during the recent financial crisis.

In late 2012, the IPF Research Programme commissioned Professor Neil Crosby and Dr Steven Devaney, to investigate a potential solution to this problem. In **IPF Short Paper 18: Constructing an Effective Rental Index**[2] they outlined how valuers might best be encouraged to record headline rental values together with the expected incentives, and have them converted mechanically to effective rents for inclusion in IPD indices. After examining the practicability of a range of methods for converting headline to effective rental values, they also specified the most objective way for IPD to perform this conversion, given the wide range of leases for which it receives data.

1 Crosby N. and Murdoch S. (2001) Basis of rental value for performance measurement systems, **Journal of Property Research**, 18(2) pp123-40

In 2013, the IPF undertook an industry-wide consultation into Short Paper 18's recommendations, inviting comments from valuers, valuation software providers, IPD, RICS and others. In total, over 13,000 words of response were received. The outcomes from the consultation were then debated further in a series of round table discussions with interested parties.

The final outcomes of the consultation were presented to an audience of interested parties in March 2014, where they were well received.

Outcomes

This section reviews the original recommendations put forward in Short Paper 18 and identifies how they have been amended following industry consultation.

- ***Recommendation 1*** *was for the effective rental values needed for a performance measurement system to be calculated within valuation and performance measurement systems, not directly by valuers.*

This was widely accepted as a simple and pragmatic solution. Those organisations who would be required to enhance the relevant software to achieve this[3] thought this task straightforward and something which, in time, they would be willing to implement.

However, the consultation established a desire for IPD to develop both effective and headline rental value change series. Given this, the original recommendation was changed such that valuers could continue supplying IPD with either headline or effective rental values, providing that the type of rental value supplied was specified, alongside any information needed to convert from one rental basis to another.

- ***Recommendation 2*** *wanted IPD to be as explicit in specifying the basis of rental values required from clients as it was with capital values. The initial recommendation was for IPD to insist that RICS Red Book guidance be followed to ensure it was consistently supplied with headline rent data from which effective rents could be estimated.*

This proved uncontentious. However, given the aforementioned change to allow valuers to continue supplying either headline or effective rental values, the recommendation evolved such that IPD Index Guide should go beyond simply reiterating current Red Book guidance[4] and, in future, request both the basis of the rental value being supplied to it, and the related assumptions required to interpret it.

- ***Recommendation 3*** *was that the data collection process should evolve to enable the incentives and lease terms underpinning rental valuations, not just those in the current lease, to be collected.*

This recommendation remained unchanged following the consultation. Irrespective of the type of rental value supplied, valuers will in future be asked to supply information on the incentives and lease terms underpinning them.

- ***Recommendation 4*** *was for the universal adoption within UK performance measurement systems of a single method for determining effective rental values from data on headline rental values and incentives.*

Following detailed modelling work, the method recommended by Crosby and Devaney was a simple conventional valuation using a capitalisation of the headline rent over a period running from the valuation date to a date halfway between the assumed lease expiry date and the first rent review date. The effective rental value generating the same present value could then be computed.

In their view, these calculations could be done within a valuation programme using the equivalent yield as the capitalisation rate, alongside new data fields on assumed lease term, rent review interval and incentives. They could also be reversed, if necessary[5], to estimate a headline from an effective rental value.

2 IPF Research Programme Short Paper **Constructing an Effective Rental Value Index**, can be downloaded from www.ipf.org.uk

3 IPD, ARGUS, KEL and OSCRE

4 It should be noted that IPD's Index Guide is international and, as such, IPD was naturally insistent that it refers valuers to 'local' valuation standards rather than an explicitly UK standard like the Red Book.

Despite generating by far the most commentary during the industry consultation, this recommendation ultimately remained unchanged. The method proposed was accepted as the most viable. However, concerns were raised that valuers and investors might become confused about the nature of these proxy rental values, potentially viewing them as relevant for specific valuations rather than computed solely for purposes of improved index construction.

This concern resulted in an additional recommendation, namely, that, to avoid confusion, an information note should be written and distributed to both valuation and investment communities clarifying the purpose of these new rent estimates. Furthermore, in any resultant software outputs, the new outputs should be clearly labelled as 'Index Effective Rental Value' and 'Index Headline Rental Value'.

Data splicing

One major issue that emerged through the consultation was how the above recommendations might be implemented without disrupting the IPD rental value indices. How could the current cocktail of data be refined into its constituent parts without interrupting the supply of an essential market data series?

Various options to avoid this problem were advanced in the consultation report[6] and IPD has subsequently proposed capturing the improved data over time as valuers adopt the enhanced software and new practices (see Figure 1). As sufficient data accumulates, IPD will begin publishing the new rental indices alongside the current series. In this way, the older, 'muddied', data series will, over time, be superseded by the newer, purer, data series.

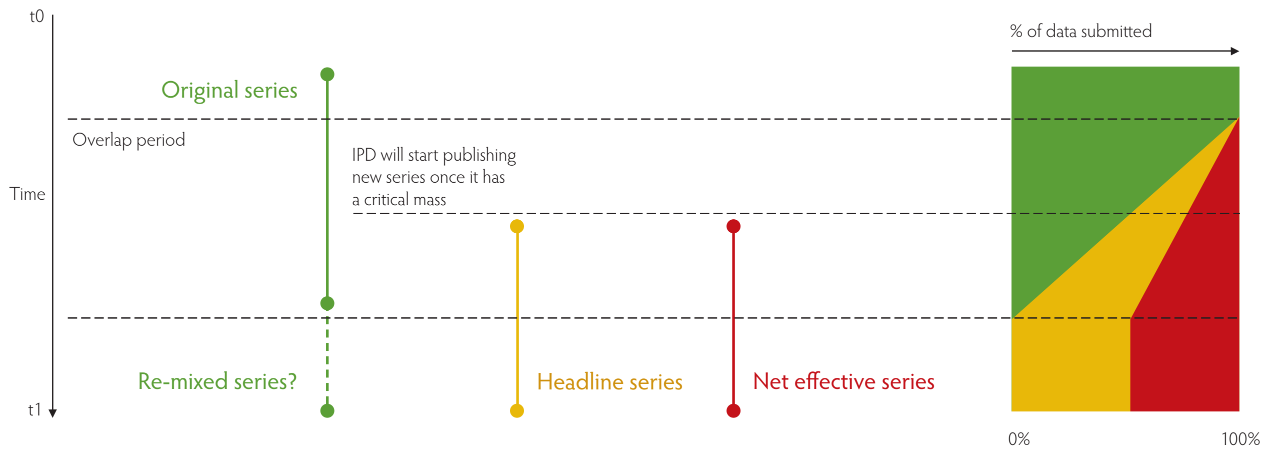
Next steps

Given that it will require a coordinated effort from a range of stakeholders[7] to achieve the vision outlined in Short Paper 18, there can be no quick fix for this issue. However, having agreed what needs to be done, attention is now switching to implementation.

An Implementation Steering Group is being established to coordinate the work of the various stakeholders to deliver the changes required to business practice and software. A meeting of experts is also being planned to review IPD's proposal for overcoming the 'data splicing' issue.

The IPF would like to thank all those who contributed to this important consultation exercise, which it hopes will result in improved rental indices for the UK and, possibly, beyond.

Figure 1: **Proposal for the IPD rent and equivalent yield series**



Source: IPD

5 Through additional empirical work, Crosby and Devaney demonstrated that any circularity in using equivalent yield as a discount rate when it is itself a function of the rental value, did not materially impact the headline and effective rental values generated.

6 IPF (2014) **Constructing an Effective Rental Value Index: consultation report and recommendations** can be downloaded from www.ipf.org.uk.

Energy & carbon policy review

JON LOVELL
Deloitte

Last year, the IPF and the other member bodies of the Property Industry Alliance (under the auspices of the more widely drawn Green Property Alliance (GPA)), together with the Government-led Green Construction Board (GCB), commissioned Deloitte to undertake a major review of energy and carbon policies in the commercial buildings sector. The full review report is due to be launched in May 2014.

Carbon emissions from buildings

Statistics are often quoted as to the contribution of buildings to total UK carbon emissions; they remain the single largest contributor, with energy use in non-domestic buildings accounting for 17% alone. The Government is legally committed to an 80% carbon reduction by 2050 and it is widely recognised that to achieve these challenging, but important targets, policies must be effective.

In its 2013 Progress Report to Parliament, the Committee on Climate Change found that emissions from the commercial building sector have remained more or less static in recent years. As a result, it urged the completion of a comprehensive assessment of non-residential low-carbon policies to ensure they are working as intended. The GPA and GCB study is therefore timely.

Headline findings from the review

The review considered 26 instruments individually and then undertook an assessment of the functionality and effectiveness of the policy framework as a whole. The headline findings were:

- As shown in Figure 1 overleaf, the instruments are not distributed evenly across the commercial buildings' lifecycle, with most affecting the occupational phase. By contrast, there are relatively few that focus specifically on transactions or financing. This arguably suppresses the potential impact of policy on market demand for energy and carbon efficient buildings, especially amongst investors and lenders. The pending implementation of letting restrictions with reference to minimum energy performance standards (MEPS) has the potential to materially alter this dynamic.
- The framework of instruments is almost entirely focused on operational energy and carbon, and virtually disregards embodied carbon, which, as the operational efficiency of buildings improves, accounts for an ever greater proportion of the total carbon impact of commercial buildings.
- The effectiveness of individual instruments is deemed to vary considerably. The policy framework is considered to be complex and around half of respondents to a market survey conducted as part of the study think it is of moderate or greater administrative burden.
- There appears to be a clear link between policy familiarity and the level of perceived benefits. This poses a key question about the role of Government and industry bodies, such as the IPF, in

communicating with the market on policy expectations and requirements, whilst also promoting the increasingly evidential business case for energy and carbon efficiency.

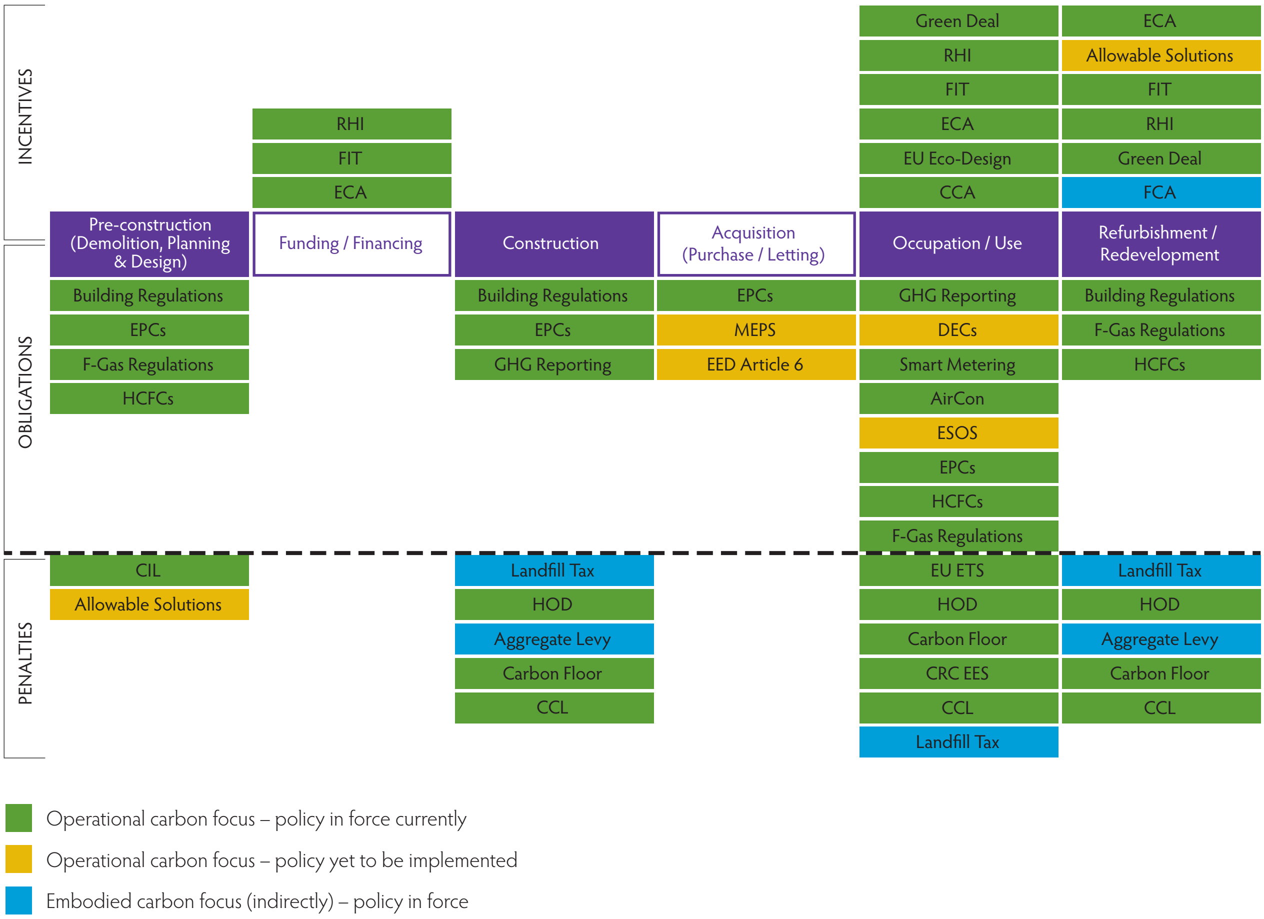
- A number of weaknesses were found with respect to the implementation of certain policy types. Particular concerns were around inadequate enforcement, incompatibility with the workings of the market, and inadequate integration of penalties and/or incentives to drive to drive compliance and performance.
- Overall, the review found significant limitations within the existing policy framework, including in the quantification and monitoring of policy impacts. However, there are a number of positive attributes that can be developed too.

Recommendations

The study will make a number of recommendations that seek to simplify complexity, reduce unnecessary instruments through rationalisation, strengthen incentive and penalty effects, and improve the arrangements for impact measurement and monitoring. There will be an emphasis on bundling policies to ensure cumulative policy impact throughout the commercial building lifecycle and also on making arrangements for constructive and transparent engagement between industry and Government on monitoring policy effectiveness going forward.

Dealing with energy and carbon performance is now an important part of fiduciary responsibility with respect to investment risk management. In that sense, engaging positively and constructively with the issues to inform effective policy design and implementation is in the interests of the industry as a whole.

Figure 1: **Distribution of policy instruments across the property lifecycle**



Abbreviations:
AirCon – Air Conditioning Assessments required under the Energy Performance of Buildings Directive
Building Regulations – Part L of the Building Regulations
CCA – Climate Change Agreements
CCL – Climate Change Levy
CIL – Community Infrastructure Levy
CRC EES – CRC Energy Efficiency Directive
DECs – Display Energy Certificates (required of public bodies occupying commercial buildings).
ECA – Enhanced Capital Allowances
EED Article 6 – Purchasing by Public Bodies required under the Energy Efficiency Directive
EPCs – Energy Performance Certificates
ESOS – Energy Saving Opportunities Scheme
EU Eco-Design – Eco-Design Directive
FCA – Flat Conversion Allowances
FIT – Feed in Tariff
GHG Reporting – Mandatory Greenhouse Gas Emissions Reporting
HCFCs – HCFC Phase-Out
HOD – Hydrocarbon Oil Duty
MEPS – Minimum Energy Performance Standards, pursuant to the Energy Act 2011

Deloitte LLP disclaims any liability arising out of the use (or non-use) of the lifecycle mapping of policy instruments, including any action or decision taken as a result of such use (or non-use).

Note 1: Each instrument performs one or more of the following functions:

- *Instruments which amplify the price / value effect of the energy consumed and/or carbon emitted in the construction, operation or demolition of buildings.*
- *Instruments which require or promote minimum standards of energy performance for new, refurbished or existing buildings.*
- *Instruments which apply a reputational effect to organisations with commercial property interests relating to their energy and/or carbon performance.*
- *Instruments which require or promote minimum standards of energy and/or carbon performance in the systems and technologies installed in buildings.*
- *Instruments with a different principal policy function but through which consequential effects on energy and/or carbon performance in the lifecycle of buildings may arise.*

Note 2: Exclusions

- *Excludes consideration of policies aimed specifically at public buildings or dwellings unless they are relevant to the consideration of policy effectiveness for commercial property.*
- *The study is limited to policies that are operational within England & Wales.*
- *Excludes instruments specific to energy-intensive (industrial) processes which may be performed within buildings.*
- *Excludes instruments specific to travel to and from commercial buildings.*

IPF Educational Trust (IPFET) sponsored research

Conservatism is inherent in forecasts

The findings of a recent IPFET Sponsored PhD thesis, Forecasting Accuracy in the UK Commercial Real Estate Sector, has shown that forecasters tend to display conservatism in their forecasts, resulting in overestimated capital growth and total return in a poorly performing market, and underestimated forecasts in a strong market. The findings show that, while accuracy increased for rental forecasts, overall accuracy was reduced in a market downturn.

Patron: John Ritblat

The PhD thesis by Dimitrios Papastamos evaluated the rationality (bias and efficiency) of the IPF UK Consensus Forecasts. The thesis examined current, one-year and two-year forecasts, exploring the momentum and rationality of the forecasts through the forecast errors. It also compared the forecasts of macroeconomic forecasters with those from property forecasters to see whether there was a marked difference in behavioural characteristics. The research found that the tendency to produce negative forecast errors in a downturn and positive in an upturn was common to both property and macroeconomic forecasters. However, overall, the macroeconomic forecasters showed greater accuracy in their forecasts.

In conclusion, the empirical findings show that the future trends in rents are likely to be captured more effectively by the IPF forecasts that contain some degree of judgment, in contrast to a pure econometric model. However, a purely econometric model displays greater accuracy for short-term forecasts of capital values and total returns, particularly in a market turning point where IPF forecasts are more conservative.

NOTE: The IPFET introduced the IPFET PhD Studentship Programme in 2010, awarding an annual PhD Studentship to UK-based real estate investment PhD students. The 2011 Studentship was awarded to Dimitrios Papastamos, undertaking research at CASS Business School and the University of Reading. He was awarded his PhD in December 2013 and is now a Senior Analyst at Eurobank Property Services, Athens.

UK Consensus Forecasts February 2014

All Property rental value growth forecasts

Projections for rental growth have continued to improve across each of the five years of the forecast, rising by 0.5% for 2014 since the last survey. Expectations are for growth rates to peak in 2015/2016, followed by modest weakening in the remaining years of the forecast. Stronger growth in these middle years (2.1% and 2.2% respectively in November) has resulted in the five-year average rising more than 50bps since the last quarter, from 1.8% to over 2.3% currently

All Property average capital value growth forecasts

An improving economic outlook has clearly influenced contributors in their short-term predictions, with the current year forecast increasing substantially from November's 3.4%. This degree of confidence is not maintained, however, as the expectation of growth declines from 2015 onwards – although that year's forecast still exceeds the long-run average of 2.5% per annum. The five-year average has risen due to the impact of higher growth rates in the early years (previously 2.2% per annum).

Figure 1: **All Property rental value growth forecasts**

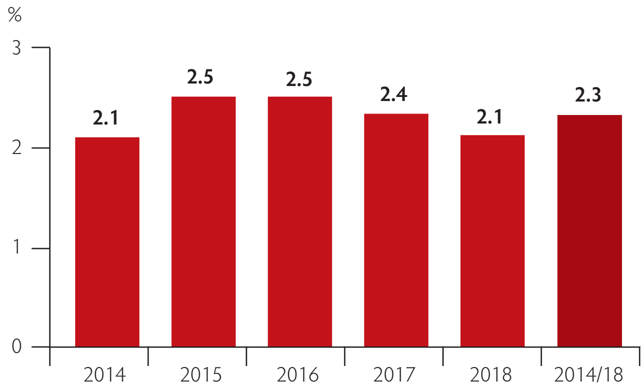
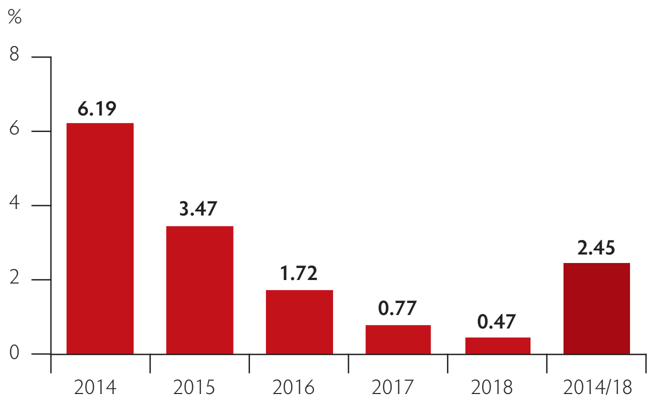


Figure 2: **All Property average capital value growth forecasts**



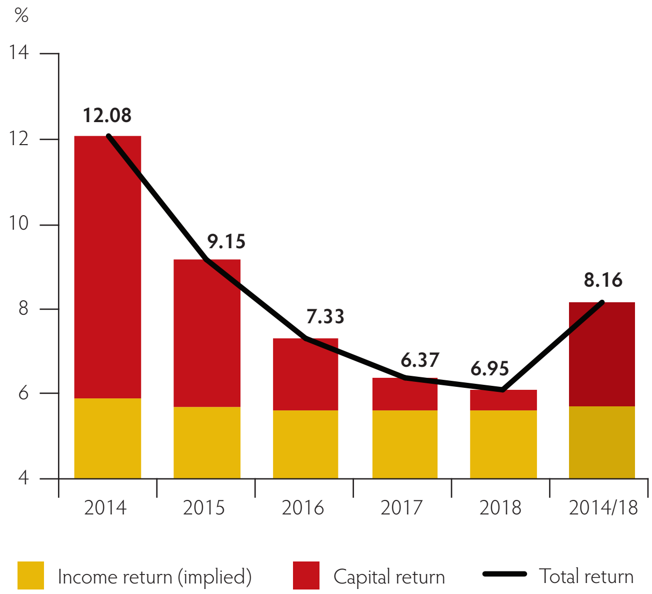
All Property total return forecasts

In a reversal of recent surveys, the major driver of the 2014 All Property total return is the capital return, representing 6.2% of the 12.1% prediction. This is short-lived, however, as weaker capital growth feeds into the total return forecasts of later years.

A contraction in the implied income return is expected to continue, reaching around 5.6% in 2016, as against 6.5% three years ago, reflecting the downward movement in yields.

With weaker expectations in the later years of the forecast, the five-year average has reduced slightly this quarter, from 8.3% to 8.2% per annum.

Figure 3: **All Property total return forecasts**



All Property survey results by contributor type

Forecasts in brackets are November 2013 comparison

Figure 4: **Property advisors and research consultancies**

	Rental value growth (%)			Capital value growth (%)			Total return (%)		
12 (12) contributors	2014	2015	2014/18	2014	2015	2014/18	2014	2015	2014/18
Maximum	4.2 (2.5)	5.2 (3.4)	3.4 (n/a)	10.6 (7.8)	6.5 (4.9)	6.3 (n/a)	16.8 (14.3)	12.4 (11.0)	12.1 (n/a)
Minimum	1.1 (0.9)	1.4 (1.1)	1.9 (n/a)	3.0 (1.0)	1.5 (1.0)	1.0 (n/a)	8.8 (6.9)	7.5 (7.0)	6.2 (n/a)
Range	3.0 (1.6)	3.8 (2.3)	1.4 (n/a)	7.6 (6.8)	5.0 (3.9)	5.3 (n/a)	8.0 (7.4)	4.9 (4.0)	5.9 (n/a)
Median	2.1 (1.8)	2.4 (2.4)	2.5 (n/a)	5.9 (3.6)	4.4 (3.1)	3.2 (n/a)	11.8 (9.3)	9.9 (8.8)	9.0 (n/a)
Mean	2.1 (1.8)	2.6 (2.4)	2.5 (n/a)	6.4 (4.0)	3.8 (3.0)	3.1 (n/a)	12.3 (9.9)	9.6 (8.9)	8.9 (n/a)

Figure 5: **Fund managers**

	Rental value growth (%)			Capital value growth (%)			Total return (%)		
17 (14) contributors	2014	2015	2014/18	2014	2015	2014/18	2014	2015	2014/18
Maximum	3.4 (2.6)	4.8 (3.3)	3.5 (n/a)	10.6 (6.5)	6.7 (4.3)	3.4 (n/a)	16.8 (12.7)	12.3 (10.1)	9.1 (n/a)
Minimum	0.7 (-0.4)	1.0 (-0.1)	0.5 (n/a)	2.1 (0.1)	0.1 (-0.9)	0.5 (n/a)	8.5 (5.8)	5.6 (5.1)	5.5 (n/a)
Range	2.7 (3.0)	3.8 (3.4)	3.0 (n/a)	8.5 (6.5)	6.6 (5.2)	2.9 (n/a)	8.3 (6.9)	6.7 (5.0)	3.6 (n/a)
Median	2.2 (1.8)	2.4 (2.0)	2.3 (n/a)	5.5 (2.5)	3.1 (2.7)	1.7 (n/a)	11.4 (8.3)	8.6 (8.4)	7.2 (n/a)
Mean	2.1 (1.6)	2.5 (1.9)	2.2 (n/a)	6.1 (2.9)	3.1 (2.2)	1.9 (n/a)	11.9 (8.9)	8.7 (8.0)	7.6 (n/a)

Figure 6: **All forecasters**

30 (27) contributors	Rental value growth (%) 2014	2015	2014/18	Capital value growth (%) 2014	2015	2014/18	Total return (%) 2014	2015	2014/18
Maximum	4.2 (2.6)	5.2 (3.4)	3.5 (n/a)	10.6 (7.8)	6.7 (4.9)	6.3 (n/a)	16.8 (14.3)	12.4 (11.0)	12.1 (n/a)
Minimum	0.7 (-0.4)	1.0 (-0.1)	0.5 (n/a)	2.1 (0.1)	0.1 (-0.9)	0.5 (n/a)	8.5 (5.8)	5.6 (5.1)	5.5 (n/a)
Range	3.5 (3.0)	4.2 (3.5)	3.0 (n/a)	8.5 (7.7)	6.6 (5.8)	5.8 (n/a)	8.3 (8.5)	6.8 (5.9)	6.6 (n/a)
Std. dev.	0.8 (0.7)	1.0 (0.8)	0.7 (n/a)	2.5 (2.1)	1.8 (1.6)	1.4 (n/a)	2.5 (2.2)	1.8 (1.5)	1.5 (n/a)
Median	2.2 (1.7)	2.4 (2.1)	2.4 (n/a)	5.6 (2.8)	3.3 (2.8)	2.5 (n/a)	11.6 (8.6)	9.0 (8.5)	8.4 (n/a)
Mean	2.1 (1.6)	2.5 (2.1)	2.3 (n/a)	6.2 (3.4)	3.5 (2.6)	2.4 (n/a)	12.1 (9.3)	9.2 (8.5)	8.2 (n/a)

Notes:

1. Figures are subject to rounding and are forecasts of All Property or relevant segment Annual Index measures published by the Investment Property Databank (IPD). These measures relate to standing investments only, meaning that the effects of transaction activity, developments and certain active management initiatives are specifically excluded. **2.** To qualify, all forecasts were produced no more than 12 weeks prior to the survey date. **3.** Maximum: The strongest growth or return forecast in the survey under each heading. **4.** Minimum: The weakest growth or return forecast in the survey under each heading. **5.** Range: The difference between the maximum and minimum figures in the survey. **6.** Median: The middle forecast when all observations are ranked in order. The average of the middle two forecasts is taken where there is an even number of observations. **7.** Mean: The arithmetic mean of all forecasts in the survey under each heading. All views carry equal weight. **8.** Standard deviation: A statistical measure of the spread of forecasts around the mean. Calculated at the 'All forecaster' level only. **9.** There was one 'other' (non-equity broker) contributor this quarter, whose data is incorporated at the 'All forecaster' level only. **10.** One contributor did not produce any 2018 forecasts, therefore all 2014/18 five-year averages are derived from one fewer contributor than the number noted in the left-hand header columns. **11.** The sector figures are not analysed by contributor type; all figures are shown at the 'All forecaster' level. **12.** In the charts and tables, 'All Property' figures are for 30 contributors, while the sector forecasts are for reduced samples (27/25) of contributors.

ACKNOWLEDGEMENTS

The Investment Property Forum (IPF) would like to thank all those organisations who contributed to the IPF UK Consensus Forecasts for Q1 2014, including the following:

Property advisors (including research consultancies): BNP Paribas Real Estate, Capital Economics, CBRE, Cluttons LLP, DTZ, Fletcher King, GVA, Jones Lang LaSalle, Kempen & Co., Knight Frank, Paul Mitchell Real Estate Consultancy Limited, Real Estate Forecasting Limited.

Fund managers: Aberdeen Asset Management, Aviva Investors, AXA Real Estate, CBRE Global Investors, Cordea Savills, Cornerstone Real Estate Advisors, Deutsche Asset & Wealth Management, F&C REIT Asset Management, Henderson Global Investors, HSBC Global Asset Management, Ignis Asset Management, Keills, LaSalle Investment Management, Legal & General Property, M&G Real Estate, Scottish Widows Investment Partnership, Standard Life Investments.

Note Consensus Forecasts further the objective of the IPF to enhance the efficiency of the real estate investment market. The IPF is extremely grateful for the continuing support of the contributors as noted above. This publication is only possible thanks to the provision of these individual forecasts.

If your organisation wishes to contribute to future surveys, please contact the IPF Research Director at pcraddock@ipf.org.uk.

European Consensus Forecasts
November 2013

Market expectations weaken for 2013

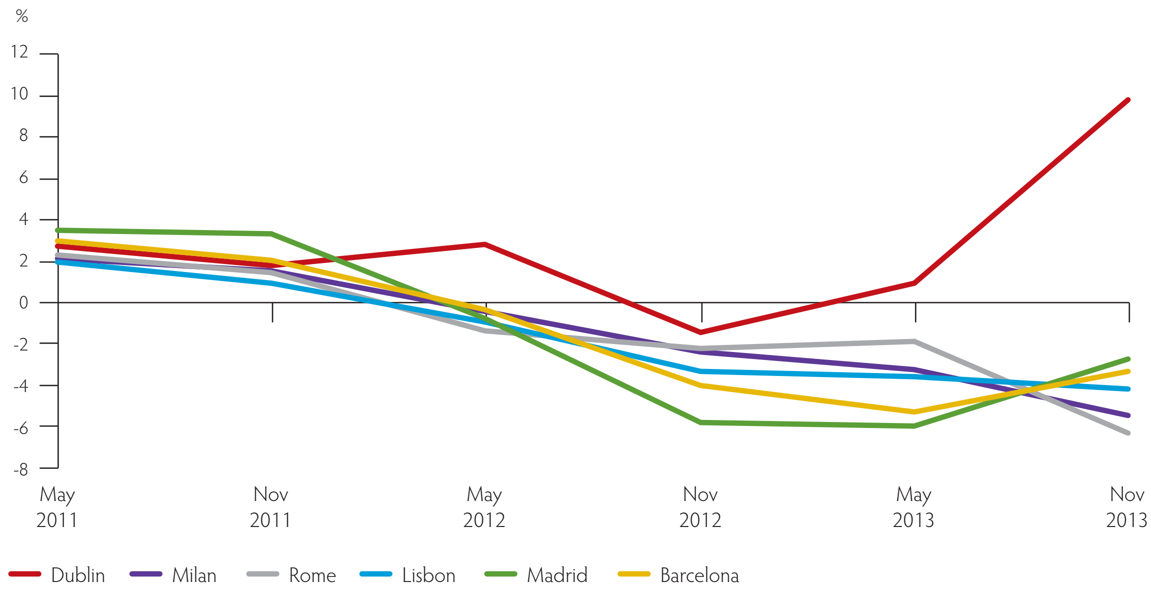
Consistent with the May consensus report, projections for the current year have continued to decline as market forecasts in 17 locations have weakened, of which 12 have fallen by more than 1.0% in the six months since the last survey, reflecting weak demand for stock, itself a function of prevailing economic conditions. In only five centres have growth prospects increased by more than 1.0% on average in this period, compared to seven in May.

The spread of average growth rates demonstrates the considerable divergence between all locations as the range of projections has increased to around 16.2% from 13.2% in May (spanning -6.3% for Rome to +9.8% for Dublin). Forecasts for individual markets continue to show considerable variation in the short-term with nine sets for 2013 exceeding a range of 10% (compared to six sets in May), with the greatest disparity recorded in the case of Paris La Défense, where individual forecasts extend between -14.0% and +4.0%.

Analysing the results at a sub-group level, Figure 1, covering the PIIGS economies, shows increasing negative expectations for Rome offices and, to a lesser degree, for Milan. The Lisbon market also continues its downward trajectory. Conversely, the rates of deterioration in the Madrid and Barcelona markets appear to be slowing.

Dublin's considerable growth is a reflection of continued leasing activity in the city's office market over recent months. The controversy over Ireland's 'tax haven' status appears to have had no noticeable impact on occupier demand, with an encouraging volume of active requirements from a range of

Figure 1: **Weighted average rental growth forecasts 2013 – PIIGS economies**



organisations, including Deutsche Bank, Dropbox, Groupon, Squarespace and Wonga. In addition, KPMG has announced it is seeking new headquarters of between 16,500m² and 18,500m² within the next three to four years. Should all these requirements be satisfied, there will be a scarcity of Grade A office accommodation in the capital, which could herald a new period of development activity.

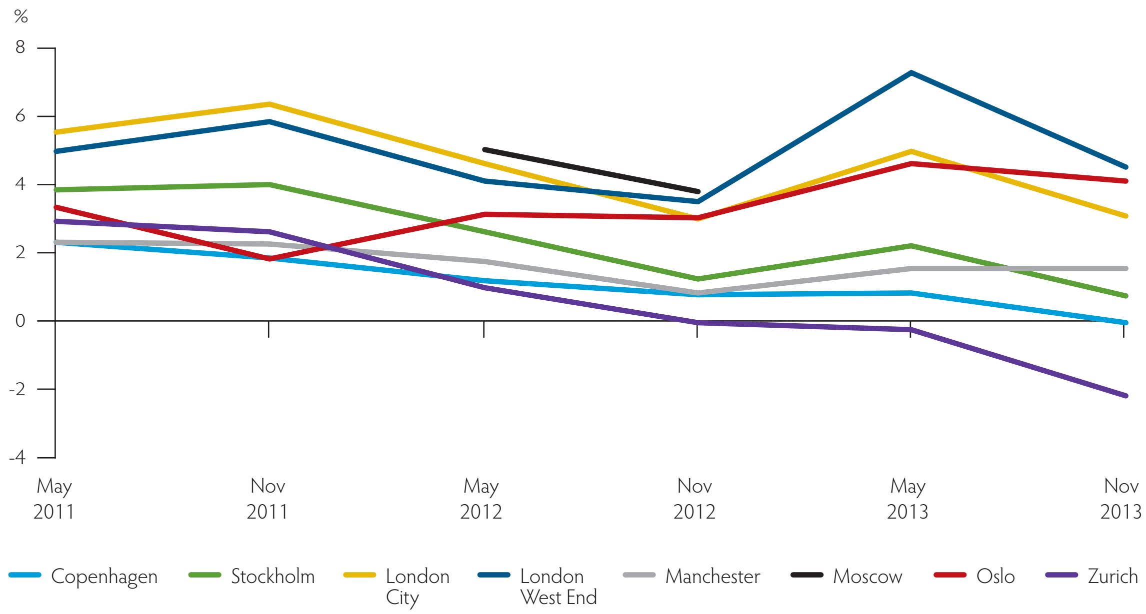
Of the 12 other office markets that are expected to deliver negative growth in 2013, the average predicted rate for Paris la Défense has fallen further, to -4.5% from -2.3% in May, and sentiment for the Paris CBD has also weakened, to -3.2% from -0.2%. This further deterioration in the French capital's office market is a reflection of a significant downturn in letting activity (around 30% lower in the Greater Paris area compared with a year ago). Forecasts for a number of eastern European centres, namely Warsaw (now -4.1%), Budapest (-2.4%) and Prague (-2.1%), have weakened considerably in the last six months. Other markets that have fallen below zero growth include Zurich and Brussels, both now expected to record an average 2.2% drop in growth over the year.

The only eurozone centres expected to deliver positive returns, other than Dublin are Vienna (at 0.7%) and the four German cities, ranging from 0.9% for Hamburg to 3.7% for Frankfurt.

Outside the eurozone

In a reversal of the May projections, prospects for growth for major office centres outside the eurozone have weakened for all markets other than Manchester (see Figure 2). The forecast for Copenhagen has fallen to just below zero, whilst the rate of decline for Zurich, at -2.2%, appears to be accelerating. The more modest growth rates being projected for London and Oslo are suggestive of some overheating, although demand remains strong for good quality space in these locations.

Figure 2: **Weighted average rental growth forecasts 2013 – non-eurozone centres**



Recovery in the medium term

The outlook for 2014 is one of improvement across the majority of markets, with only three locations predicted to deliver lower growth rates than in 2013, these being Frankfurt (down to 2.0% from 3.7%), Dublin (6.3% from 9.8%) and Oslo (3.7% from 4.1%). Eight centres are projected to return to positive growth (of between 0.3% and 3.0%), whilst the nine still expected to deliver negative growth are all predicted to decline at significantly slower rates than previously, the weakest being Paris La Défense at -2.2%.

Rental growth forecasts for 2015 are all positive, albeit a feeble 0.1% for Rome offices, as the majority of locations recover further. Only four markets are expected to experience slightly lower rates of growth than in 2014, being Munich (2.8% from 2.9%), Luxembourg (1.2% from 1.9%) and London City and West End (down from 6.5% and 5.4% to 5.7% and 5.2% respectively).

In all, 21 of the 29 office market forecasts provided indicate likely year-on-year improvements in growth rates over the next 24 months.

Three-year average forecasts

The rolling average growth rates indicate most markets will recover in the longer term, although 12 of the three-year forecasts are negative with five greater than -1.0%. In terms of movements over the last six months, three locations have improved by more than 1.0% in this period - Madrid, Luxembourg and Frankfurt. However, six have worsened by more than -1.0% (as compared to four in May) – Zurich, Warsaw, Rome, Paris CBD, Paris La Défense and Prague. The weakest average growth forecasts continue to be dominated by southern peripheral eurozone centres, joined by three eastern European markets, ranging from -2.6% for Rome to marginally below zero for Budapest.

Only two markets are now predicted to deliver weakly positive growth of less than 1.0% (Amsterdam and Lyon), whilst the strongest markets over the same period continue to be London (City and West End) and Oslo, ranging from 5.1% to 3.6%, joined (and exceeded) by Dublin at 7.5%.

Five-year average forecasts

The five-year averages contain only one market expected to deliver negative growth over the period (Rome at -3.2%). A further eight are projected to provide weakly positive growth on average (at or below 1.0%). The outlook to 2017 indicates average annual rental growth may improve by more than 1.0% in the remaining 20 markets, as compared to 15 at May 2013. Of these, only three might grow by more than 3.0% per annum – London City and West End and Dublin.

Conclusions

With the exception of Dublin, the inherent weaknesses of the peripheral eurozone economies continue to impact adversely on rental growth prospects within these office markets. It is interesting to note, however, that Warsaw, Prague and Budapest have joined this group, albeit all within non-eurozone economies.

Generally, with the exception of Zurich, the majority of locations situated outside the eurozone, together with Dublin, continue to offer the best prospects of growth over each yearly period of the survey.

The rolling three- and five-year annualised growth rates suggest that the majority of markets are stabilising and expectations have become more narrowly grouped with the passage of time (see three-year and five-year rolling average charts in Appendix 2). In the near term (2013), however, rental growth has weakened across most centres as the majority of the Continent's economies struggle to expand.

Who's Who at the IPF Executive

Main picture, left to right: Sue Forster, Frankie Clay, Barbara Hobbs, Cheryl Collins, Lois Fidler
Inset pictures, left to right: Pam Craddock and Jenny Hooper

Sue Forster – Chief Executive

I have overall responsibility for managing the affairs of the IPF – my job ranges from kick-starting new IPF initiatives and responsibilities as company secretary to collecting name badges after seminars, and everything in between.

I have been a member of the Executive since July 2007 but my involvement with the IPF dates to 1990 when I was fast-tracked to membership following completion of the CEM two-year Postgraduate Diploma in Property Investment. During the 1990s, I was involved in promoting the IPF and a printed newsletter for its members through the auspices of the Property Investment Diploma Association. The newsletter morphed through stages to 'Investment Property Focus'. I agreed to take over as newsletter/journal editor in 2003 and have been in post ever since.

My career in commercial property started with rating, planning, landlord & tenant and large-scale asset valuations as a non-cognate at Gerald Eve. I then joined Hillier Parker's investment agency team, where I specialised in secondary property and was a contributor to the HP Yield Index. Later, I was made an associate, then partner, in the Planning and Development Team at Drivers Jonas, advising on large-scale town centre redevelopment and commercial leisure schemes. Having caught the 'leisure bug', I moved to the newly-formed Leisure & Hospitality Consulting Team at EY. Prior to joining the IPF, I was the MD of Freeman Business Information.

My non-IPF interests include family (I have three teenage children), theatre, eating out, painting (acrylics and watercolours), history and travel. My current ambitions are to see a tiger in the wild (have tried in Nepal already) and qualify for a 'gold' blood donor badge.

Pam Craddock – Research Director

I joined the IPF in January 2011 as the Research Director and am responsible for co-ordinating all aspects of the IPF Research Programme and working with the IPF's Research Steering Group and the wider membership to develop the IPF's research agenda.

I started my career in property with British Rail Property Board, Walker Son & Packman and NPI before moving to Royal Insurance and have worked in a range of organisations including private practice, a pension fund, a mortgage bank and a multi-national corporation. Aside from getting a thorough grounding in landlord and tenant work in my early surveying years, which led to a number of asset/fund management roles, more recent career moves brought me into the world of real estate financing, latterly, managing and restructuring loans.

In addition to a BSc Estate Management from Leicester Polytechnic, I also have a MSc Property Investment from City University Business School.

I have been an IPF member since 1994, and am also a member of the RICS, Chartered Institute of Arbitrators and Society of Property Researchers. Of these, to paraphrase Groucho Marx, "if I had to be a member of an institution, I know which one I would choose!"

When I have a break from all things IPF research, I enjoy entertaining, gardening, theatre (especially Shakespearean), and trips to South West France. On my bedside table I have Freakonomics (Levitt and Dubner), Ian Rankin's Resurrection Men and 'The Thousand Autumns of Jacob de Zoet' by David Mitchell. I also enjoy music – mainly female artists – from Ella Fitzgerald and Aretha Franklin to Madeleine Peyroux and Adele.

Frankie Clay – Associate Director

I joined the IPF at the start of 2008, following a six-month career break during which I went travelling. Before going away, I worked as an Editor at Freeman Business Information with Sue Forster. I studied Italian and French at Cardiff University – miles away from what I do now!

At the IPF, I look after the IPF Education Programme, as well as sub-editing Investment Property Focus. Currently I am managing the new website and database project – a complete overhaul of the IPF systems, which we are planning to complete in the Autumn. After this, I plan to take a long hot holiday somewhere free from IT.

I also act as secretary to a number of IPF committees – including the Strategic Advisory Group, the Operational Board, the Education Strategy Group and the Academic Group.

My role at the IPF has gone through a number of different incarnations since I joined. This is a good thing – it keeps things interesting.

Away from the IPF, I enjoy reading and crocheting and going to the cinema. I also have two houserabbits – more like cats than rabbits. I am also a qualified scuba diver, although diving holidays are few and far between these days.

Cheryl Collins – Membership Manager

I joined the IPF Executive in July 2010 and am responsible for all matters relating to our 2,000+ members. My role includes processing application forms, assisting members with enquiries and liaising with the IPF Membership Committee in order to implement new membership initiatives.

Prior to joining the IPF, I worked at the International Institute of Risk and Safety Management as an administration co-ordinator.

I qualified as an integrative therapist in 2012 and am also a qualified commis chef. I volunteer at my local Buddhist centres at weekends and my passions include cooking, singing, dancing and travel. I enjoy the camaraderie of working within the IPF Executive.

Lois Fidler – Educational Events Manager

I joined the IPF in July 2013 as the Educational Events Manager, which involves overseeing the organisation of our seminars, workshops and site visits. During busy times, we may have as many as five events running a week, either based in London or regionally, so this role requires good time management and careful organisation. As part of a small team, I also help with other areas such as co-ordinating committee meetings for a number of our special interest groups, and cataloguing our press coverage.

Before joining the IPF, I was studying English at the University of Southampton, where I joined my university's Enactus team. Enactus is a worldwide organisation which enables university students to improve the lives of people in need through social enterprise. During that time, I was lucky enough to present our team's projects at both national and international competitions, visited Kuala Lumpur and Washington and set up a project working with young adults who were struggling to find employment. Now that I have graduated, I am part of the Enactus UK Alumni Board, planning our professional development events and mentor an Enactus team.

I also enjoy horse riding, climbing and spending time with my friends and family.

Barbara Hobbs – Events Manager

I joined the IPF originally as maternity cover for Suleen Syn in November 2010 and must have done a good job because I am now permanent!

My key responsibilities are to organise the dinners, lunches, drinks receptions, conferences etc., which I thoroughly enjoy. One of the benefits is the menu and wine tasting prior to each event – it is tough, but someone has to do it.

Apart from my first job as an office junior for the London Borough of Enfield Architects Department, my entire working life has been in event management and/or membership admin.

I enjoy reading, gardening, knitting and volunteering – I was a London 2012 Games Maker, Team London Ambassador, volunteered at the World Police and Fire Games 2013 in Belfast, the Queen's Coronation Festival and a London Marathon marshal in 2013 and again this year. In May, I shall be back in Belfast again volunteering at the start of the Giro d'Italia. Sadly, I was too late to apply for a place to marshal the UK leg of the Tour de France but I have applied to volunteer at the Rugby World Cup in 2015.

Another interest is sponsored charity walks – I have completed seven full marathon walks in London for 'Walk the Walk' and Cancer Research UK and some other shorter distances for 'Men in Pants' and The Children's Society.

Jenny Hooper – Accounts Manager

I joined the IPF in 1998 as its third permanent member of staff. It was an exciting time to be working for IPF as it developed from a small breakaway group of the RICS to the independent organisation it is today. My role at the time was mainly general admin, with an emphasis on supporting Amanda Keane to set up the new 'Investment Education Programme'.

Over subsequent years, my role has continued to change to encompass organisation of the Annual Lunches and Dinners, CPD events, co-ordinating the Management Board and finally, my present role of overseeing day-to-day management of the IPF's accounts.

Before joining the IPF, I worked for the RICS and Hillier Parker, which gave me an understanding of the property world. Before that, I worked for various events and marketing companies. I completed my BSc in English Literature with the Open University whilst working at the IPF.

I am married with three children which keeps me busy! I also find time to pursue my love of reading, gardening and cooking.

Forthcoming events

Event	Date	Venue	Booking status
Midlands Lunch	2 May	ICC, Birmingham	SOLD OUT
Midlands members' party	18 June	Piccolino, Birmingham	By invitation
Annual Dinner	24 June	The Grosvenor House, London	Open
Seminar & Dinner in Scotland	3 September	The Roxburghe, Edinburgh	Opening shortly
Midlands Dinner	16 October	ICC, Birmingham	Opening shortly
Northern Dinner	13 November	The Lowry Hotel, Manchester	Opening shortly

IPF Annual Dinner

Tables are still available for the IPF Annual Dinner on 24 June. Our guest speaker is Alexander Armstrong.

For more details, please contact Barbara Hobbs, bhobbs@ipf.org.uk

Forum Activities and Announcements

Board changes

We are delighted to announce the Chris Ireland of JLL has accepted the position of Vice Chairman under Max Sinclair's Chairmanship, which starts in June. Chris will become Chairman in 2015. Jason Baggaley of Standard Life has succeeded Stuart Tait as Chairman of IPF Scotland.

Chris Ireland

Jason Baggaley

IPF Annual Lunch 2014

The Annual Lunch took place on Friday 31 January 2014 at the Hilton Park Lane, London W1. Daniel Finkelstein was the after Lunch speaker. This event was kindly sponsored by Burges Salmon, Chase & Partners, Langham Hall and Valad.

Danny Finkelstein speaking after the Lunch

Investment Education Programme

The Investment Education Programme 2013-14 has been running since October, with a further three modules being offered in this cycle. If you are interested in taking a single module from this cycle, or following the full diploma in 2014-15, further information can be found on the IPF website.

We are delighted at the continuing popularity of the IPF Diploma. 11 students completed the Diploma in 2011-12, and 10 of them collected their certificates at a reception prior to the Lunch.

IPF DIPLOMAS AWARDED 2012-13

IPF Diploma Holders 2013

Stephen Ackroyd – BNP Paribas Real Estate Investment Management
John Barnes – Housing Solutions
Paul Hillier – BP Investment Management
Lu Li – Aviva Investors
Max Linder – PwC
Sam Lockhart Smith – Cornerstone Real Estate Advisers
Henry MacInnes – Legal & General
Alison Morton-Nicholls – Standard Life Investments
Steven Rafferty – Ignis Asset Management
Tim Russell – Legal & General
Callum Young – Savills UK

PRIZEWINNERS

Sam Lockhart Smith is this year's winner of the John Whalley Prize for best overall performance in the Diploma.

Andrew Smith, Sam Lockhart Smith and John Story

Lu Li is awarded the IEP Module Prize for the best performance in a single module.

Andrew Smith, Lu Li and John Story

IPD/IPF UK Property Investment Awards

The 14th Annual Property Investment Awards were hosted by Berwin Leighton Paisner on 27 March. Andrew Smith, IPF Chairman and Phil Tily, Managing Director IPD UK & Ireland, presented the awards.

10-year Absolute Risk-Adjusted Return Winner, Church Commissioners Total Real Estate

10-year Relative Risk-Adjusted Return Winner, South Yorkshire Pension Fund

IPD/IPF Property Investment Award Winners

Implications of Banking Reform

CHARLES CATTELL
The Cattellyst Consultancy

The Financial Services (Banking Reform) Act enacted in December 2013 contains a number of provisions that may impact individual IPF members. The regulators are expected to replace the current Approved Persons regime with a two-tier framework for deposit-takers and investment firms, consisting of a more stringent Senior Managers Regime for senior staff with a Certified Persons Regime for others who perform roles involving the risk of 'significant harm' to firms or consumers. More staff than currently are expected to be in scope of the new arrangements. The existing Approved Persons regime will continue for other firms, but is likely to be reviewed.

The new framework is expected to include:

- Statements of specific responsibilities for each senior manager
- Vetting senior managers for qualifications, training, competence and personal characteristics
- Annual review of individual fitness for approval
- Variations of approvals on regulator's initiative
- Annual certification of staff performing 'significant harm' functions
- Vetting certified persons for qualifications, training, competence and personal characteristics
- Rules of conduct issued by regulators
- Burden of proof falling on senior managers in misconduct actions

More detail is expected from the regulators within the next few months. An update will be published in Focus at the appropriate time.

Banking Standards Review Consultation Paper

In March, the IPF responded to the Banking Standards Review Consultation Paper on improving standards of behaviour and competence in the UK banking sector.

Given the importance of banking to the fortunes of both the UK economy and its citizens, the IPF fully supports the best possible standards of competence and behaviour being established across the banking sector.

The IPF indicated willingness to work with the new Banking Standards organisation to enhance the level of knowledge and understanding of the property industry within banks and building societies.

IPD
An MSCI Brand
IPF
Investment
Property Forum
23rd IPD/IPF Property Investment Conference
Riding the new wave: risk, return and regulation in the next real estate cycle
20-21 November 2014
The Grand Hotel, Brighton, UK
Booking is open – early bird rates until 1 August 2014
www.ipd.com/events/ipdipf-property-investment-conference.html

About the Nick Tyrrell Research Prize

The Nick Tyrrell Research Prize has been established by INREV, the Investment Property Forum (IPF) and the Society of Property Researchers (SPR) to recognise innovative and high-quality, applied research in real estate investment.

The Prize is in memory of the work and industry contribution of Nick Tyrrell, who sadly passed away in August 2010. Nick was Head of Research and Strategy and a Managing Director in J.P. Morgan Asset Management's European real estate division. His research work was characterised by a combination of academic rigour and practical relevance.

1. The Prize

- The Prize includes the following elements:
  - an award of £2,000;
  - an award presentation (which may be held at one of the conferences / dinners organised by one of the sponsoring organisations);
  - the opportunity to present the paper at a seminar organised by the sponsoring organisations; and
  - the inclusion of the article (or a summary thereof) in one or more of the sponsoring organisations' publications;

All of the above elements may be changed at the discretion of the three sponsoring organisations and the IPF Educational Trust.

2. Prize criteria

- Papers should represent, in the opinion of the Judges (listed below), high-quality research that is:
  - innovative, original and timely;
  - relevant to the real estate investment industry (listed/unlisted, direct/indirect, equity/debt);
  - of academic rigour; and
  - typically between 5,000 and 10,000 words.
- Both single author and joint author submissions are permitted.
- Preference will be given to those papers where one or more of the authors is associated with a real estate investment management organisation or similar, by way of a full-time or part-time position.

3. Submission of papers

- Papers should be submitted directly by email to the Secretary, as nominated by INREV, the IPF and the SPR, stating any involvement or sponsorship by third parties and/or whether the paper has been submitted for other prizes.
- The deadline for submission of papers is 31 May each year.
- Papers that have been submitted for other prizes may only be considered with the explicit consent of one of the Judges.
- Sponsored pieces may be submitted with the written consent of the sponsor. A copy of this consent should be included with the submission.
- Only completed research papers will be considered by the Judging Panel. Proposals for papers may be discussed with the Secretary.
- Ideally, the Prize will be awarded to an unpublished paper, but papers may be considered that:
  - have been published in the academic or professional press no longer than one year before submission;
  - presented to a conference no longer than one year before submission; or
  - are being considered for publication at the time of submission.
- The Secretary will distribute the papers to the Judges. The Judges will not correspond on any submissions directly.
- The Judges are under no obligation to award the Prize.

4. Management of the Prize

- INREV, the IPF and the SPR will be responsible collectively for the administration of the Prize and will appoint a Secretary to liaise with the Judges and the IPF Educational Trust.
- The Prize will be funded by monies from the Nick Tyrrell Memorial Fund, which is administered by the IPF Educational Trust, an independent charitable body.
- Monies for the Prize will be raised by the three sponsoring organisations on an as-and-when basis. The three organisations will each be responsible for publicising the Prize and for all aspects of management.
- The three sponsoring organisations will each appoint one Judge to sit on the Judging Panel. A fourth Judge will be appointed collectively to act as Chairman. Further Judges may be appointed, providing all three organisations are in agreement. All Judges will serve a two-year term and may serve a maximum of two consecutive terms.
- The Judging Panel should comprise individuals with broad and substantial experience from both academia and practice. At least one member of the Judging Panel will have experience of non-UK real estate markets.

5. Other issues

- Should the Fund be unable to award the Prize due to insufficient funds and the three sponsoring organisations choose not to seek additional funds, the remaining monies in the Memorial Fund would be merged with those of the IPF Educational Trust, to be used at the discretion of the Trustees.
- Similarly, should all three sponsoring organisations choose to cease awarding the Prize, the remaining monies in the Memorial Fund would be merged with those of the IPF Educational Trust, to be used at the discretion of the Trustees.
- Should the Prize not to be awarded at any time during a four-year period, for whatever reason, the Prize would terminate automatically unless the three sponsoring organisations all agree otherwise.

Judging Panel (2014)

Dr Robin Goodchild (chair)
Professor Colin Lizieri
Dr Brenna O'Roarty
Dr Paul McNamara
Dr Neil Turner

Secretaries (2014)

Dr Paul Kennedy email: paul@pjkennedy.co.uk
Anne Koeman email: anne.koeman@gmail.com

IPF Investment Property Forum

Annual Dinner 2014

Tuesday 24 June 2014

The Grosvenor House
Park Lane, London W1

18:30 Pre-dinner drinks
19:30 Dinner

Black Tie

Guest speaker: **Alexander Armstrong**

Ticket price: £125 +VAT

£150 inclusive of VAT @ 20% per person
The ticket price excludes wine and other beverages

For more information or to book, please contact Barbara Hobbs on 020 7194 7924 or email bhobbs@ipf.org.uk

This event is kindly sponsored by:

BURGES SALMON

JLL

LanghamHall real estate fund administration

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