Investment Property Forum

forum view

THE MAGAZINE OF THE IPF
ISSUE 11 DECEMBER 2003

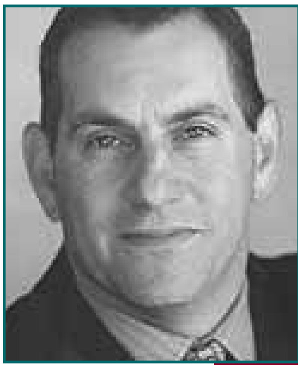
The IPF Celebrates its 15th Anniversary

Current Chairman - Ian Marcus

The traditional gift to celebrate a 15th Anniversary is crystal, while modern interpretations suggest watches. In the IPF's case, timepieces are probably more appropriate for an organisation that has always been in a hurry, forward thinking and one step ahead.

I was appointed as the first Vice-Chairman of the IPF last year. The introduction of this new role has ensured greater continuity amongst the Management Board and enhanced support for our extremely professional and supportive executive. My elevation to Chairman this year continued the trend of diversity of professions in the 'top job'. I am the first investment banker, having succeeded a lawyer and a fund manager; I am also not a qualified surveyor, emphasising the broad based nature of our organisation and the variety of skills required to operate in the real estate sector today.

The IPF has recognised that we now live in an environment where, despite real estate markets remaining local, the capital is certainly global; again we have endeavoured to foresee these trends and have developed relationships with sister organisations overseas with similar aims and aspirations. It is planned that we will collaborate with the Association of Foreign Investors in Real Estate and Pensions Real Estate Association of the United States next year and we recently hosted a visit by post-graduate students from the Netherlands. Closer to home, we continue to ensure our members outside London enjoy full support and access to the services of the IPF. We were delighted with the level of attendance at the inaugural event of the North West region and will deliver further additional workshops and seminars to Scotland and the Midlands, as well as, where there is demand, visit other business centres that have an interest in hearing about our new research initiatives and participating in our well regarded education programmes. Over the next few months John Gellaty and I will be visiting Edinburgh, Birmingham and Manchester to update the membership about what is going on with securitisation.



The IPF remains grateful for the continued support of the RICS and we continue to work closely together. We have also developed stronger links over recent years with other related organisations with which we share similar ideals and objectives. It remains vital for the industry to act in a co-ordinated manner so as to provide Westminster and Whitehall with an informed response, high quality research and a thorough debate on the issues of the day where property impacts on wider socio-economic situations such as regeneration, savings and the built environment.

It is a magnificent reflection on my 14 predecessors and their respective management boards that the IPF is now welcomed, and our opinion sought, at the top table debate about property's place in the asset allocation process and specific issues of the day such as securitisation.

The challenge for the IPF is to ensure it can influence these issues in a positive and proactive fashion whilst continuing to push the envelope in our core competences of research and education. Our Vice-Chairman, Andy Martin of Strutt & Parker will inherit an organisation in great health and ready for the further challenges to come.

In This Issue

Consultant Editor:
Sue Forster,
Freeman Business Information PLC

It is Blindly Clear that Investors Crave Liquidity

Update from new IPF Research

Illiquidity regularly tops investors' concerns about commercial property as an asset class, but with no common measure of liquidity how can we set aside their concerns? Stephen Palmer of Seven Dials Consulting provides an update on the first project to receive funding through the IPF/IPF ET Joint Research Programme.

Illiquidity is generally seen as one of the major penalties of property investment, and constraints upon the functioning of the investment market. The industry has, for many years, made efforts to improve liquidity by streamlining the transactions process and by lobbying for the creation of more liquid investment vehicles. The current push for a NUREV is a case in point.

However, to date little research has been undertaken to explore the liquidity of property investment and consequently, there is no generally used definition of liquidity and no measures of how liquidity has changed over time, so property investment managers are not well placed to argue their case with colleagues in asset allocation debates.

Recognising the continuing importance of liquidity, the IPF has commissioned a team of researchers[1] to undertake a project to begin to explore this industry issue.

There are five principal components to the work:

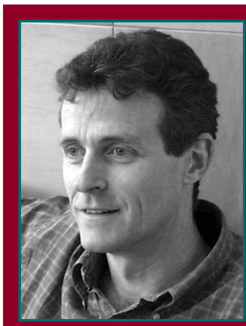
- An examination and clarification of the meaning(s) of liquidity and the specific issues involved in applying conventional definitions of liquidity to the property sector.
- Analysis of up to 300 recent deals to provide evidence of industry practices and insights on factors such as time on the market and the time taken to execute different elements of the transaction.
- Production of risk adjustment measures that allow for the illiquidity of real estate assets by taking into consideration factors such as uncertainty about the time period of sale.
- Analysis of transaction values and trading volumes of different property investment vehicles, together with comparative information from other countries and markets.
- With the intention of assisting investors and managers, these four threads of analysis will be drawn together to provide a framework for assessing liquidity risk for different types of property vehicles (ie direct ownership of individual assets, different private equity vehicles, listed vehicles etc.) in different market environments.

The research is now entering its final phase, and while the report will not be published until the Spring, some fascinating preliminary findings have already been reported. These include the following observations:

- The direct market for real estate assets is a private market characterised by uneven distribution of information, individual asset characteristics, entry barriers and the major role played by agents and valuers.
- It is difficult, but not impossible, to apply standard security market proxies for liquidity due to these market characteristics.
- In real estate, adjustments to market conditions come both from price changes and from changes in the time taken to market, buy or sell an asset. Liquidity research in property thus needs to focus on the process of buying and selling assets.
- The time taken to market and sell an asset adds uncertainty to the return. Valuation uncertainties create further risk. These ex ante risk factors are not reflected in standard performance measures.
- Studies of average holding periods show that real estate's transaction costs drive holding periods that are far longer than for other asset markets. Holding periods vary with market conditions and by type of property, with standard shops selling more frequently.
- Despite drawbacks as a measure of liquidity, transactions evidence is widely used as a headline indicator in other financial markets.
- The real estate industry devotes considerable effort to tracking and analysing transactions evidence, but this data is rarely used to construct headline measures of trading volume. Moreover, the available data sources provide only a partial picture of overall activity in the commercial property investment market.
- While in many financial markets a simple measure of transactions volume is a useful proxy for liquidity, in real estate it is important to distinguish between the number of transactions and the value of transactions. These provide complementary but different information on market liquidity.
- For consistency across time and across markets, both indicators need to be converted into transaction rates as a fraction of the total investment market. However, there are no accurate figures for the value of the total commercial real estate stock, nor for the portion of that falling into the investment market.
- Nevertheless, initial analysis of the various available sources, which all subject to reservations, suggests a value based transaction rate for 2002 of 12-20%.
- The long run trend in transactions activity over the period 1987-2002 has been growing steadily.

Some of these preliminary findings were reported at the IPD/IPF Conference in November, and IPF members will have an opportunity to hear more at an evening lecture to be held jointly with the Institute of Actuaries in February 2004.

Although the final report has yet to be submitted, it is already clear that the output from this initial research project will provide a sound basis for the IPF and others to pursue different lines of enquiry over the next couple of years.



By Stephen Palmer, Seven Dials Consulting and IPF Research Consultant

[1] The study team is being led by Colin Lizieri, Professor of Real Estate Finance at the University of Reading, and includes leading researchers from the University of Reading Business School, CASS Business School at City University, the Department of Land Economy at Cambridge University and IPD.

Too Hot to Handle: Property Investment and Climate Change

Paul McNamara (PruPIM) and David Russell (USS), representing the 'Property Workstream' of the Institutional Investors Group on Climate Change (IIGCC)

The debate is virtually over: whilst estimates range, the fact of climate change is now almost universally accepted and research is moving on to assess the dramatic impacts it will have on our world. Given that the speed of climate change and the rate at which its impacts will be felt depends largely on human activity, policy-makers are becoming increasingly aggressive in addressing its causes.

Over the medium to long term, the direct impacts of climate change could require property owners to re-think the nature, servicing and even location of their investments. But, more immediately, property owners are progressively going to be affected by stringent regulation and legislation related to reducing climate change. Since the construction and occupation of buildings are major contributors to climate change, property investors can expect to be a key focus for such activity.

These direct and indirect impacts will undoubtedly affect the growth prospects, risks, running costs and rates of obsolescence for different property types and, as such, need to be accounted for in current as well as future appraisals. Failure to do could mean that property assets are already being mispriced.

This paper presents some 'headlines' relating to climate change and identifies some of its likely direct impacts on the value of buildings and land. It then describes the main features of an oncoming stream of regulatory and legislative changes that will affect property investment. Finally, details are given of a future joint event between the IPF and the Institutional Investors' Group on Climate Change (IIGCC) at which the themes in this paper will be developed further.

Climate change - direct impacts

The UK Climate Impacts Programme predicts the following changes to the UK climate:

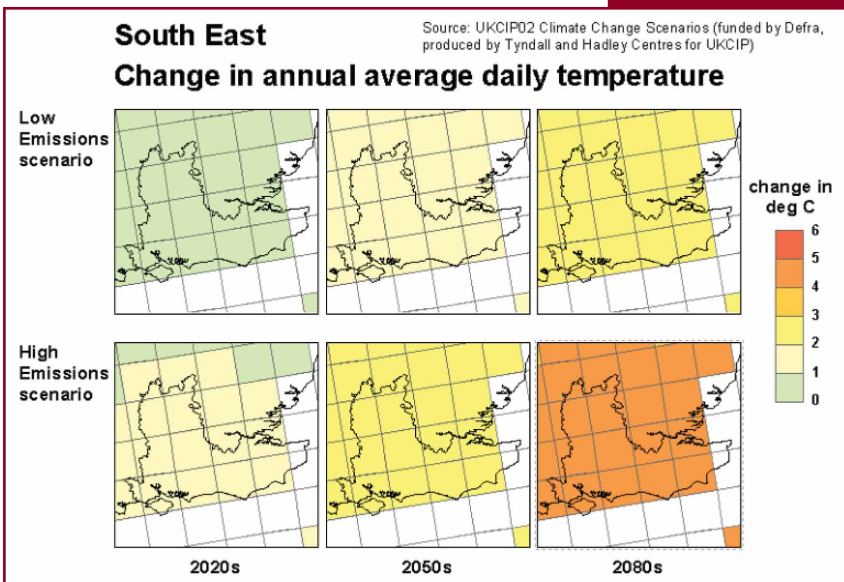
- The UK climate will become warmer;
- High summer temperatures will become more frequent, whilst very cold winters will become increasingly rare;
- Winters will become wetter and summers may become drier throughout the UK ;
- Snowfall amounts will decrease throughout the UK;
- Heavy winter precipitation will become more frequent;
- Relative sea level will continue to rise around most of the UK's shoreline; and
- Extreme sea levels will be experienced more frequently.

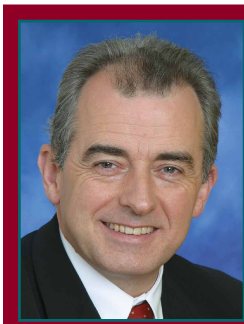
Let us look at some of these in more detail to see how they might impact property.

Estimates vary but the generally accepted view is that average UK temperatures will rise between 1°C and 2.25°C by the mid-2050s, with a north-west, south-east skew. This average masks potentially more significant rises, particularly in the South East (At worst, temperature rises expected in the South East could be as much as 6°C by 2080). Perhaps this sounds benign or even welcome? In truth, even the average changes would be highly noticeable and, with naturally occurring variations around the average, could lead to hot summers like 2003 occurring three times a decade. Just think what that could do to London's attractiveness as an office centre!

As more northerly and westerly parts of the UK become wetter and, indeed, the UK generally becomes more exposed to extreme weather events, how will the property market react to increased flood risk? How well placed have our past investments been and how will their risk premia be affected as climate change impacts become more apparent?

South East England will see drier hotter summers and wetter winters. How will retail and business parks and industrial properties be affected as the ground beneath them dries and cracks. Subsidence is a real possibility as, in some locations, is the potential release of long-buried contaminants (later washed away by higher winter groundwater).





By Paul MacNamara, Prudential Property Investment Managers Ltd.

Property Investment and Climate Change cont...

Global sea levels are estimated to rise (between 12 to 67 cm) over the next 80 years as a result of global warming. The effects of this will obviously need very careful consideration in coastal towns and alongside river estuaries? We also need to think through how such rises will combine with increased flooding risk.

Finally, it should be noted that all the above effects are based on the notion of gradual climate change. However, climatologists also worry about possible step changes in climate. If such things came to pass, then radically different outcomes could ensue.

Climate change – the indirect impacts

So, the potential direct impacts of climate change are immense. Poor countries are, and will continue to be, both the most affected and least able to mitigate climate change effects. Not surprisingly, international pressure to reduce the pace and ultimate extent of climate change is building. This is leading governments to develop policies to limit the amount of carbon dioxide and other greenhouse gasses emitted.

The EU is playing a leading role in the development of global protocols and, at a more directly relevant level, the UK Government is increasingly developing policies to mitigate climate change. Given that it will take time for the direct effects of climate change to materialise, it is more likely to be new regulation and legislation to slow climate change that will impact property investment values in the short to medium term.

The main policy thrust will focus on energy (which, given increasing dependence on overseas energy sources has an economic as well as an environmental logic in the UK). By reducing energy consumption, the requirement for energy production and, with it, the production of damaging carbon dioxide will fall. Other policies will aim at reducing other greenhouse gases, increasing efficiency, conserving water and promoting alternative energy sources. Given available space, even though these other policies could also affect property values, we will concentrate here on energy policy to learn relevant lessons.

Energy policies

Earlier this year, the UK Government published its Energy White Paper establishing targets and aspirations for the reduction of UK carbon emissions over the next 10, 20 and 50 years. These targets are challenging, including an aspiration to reduce emissions by 60% by 2050!

Since properties contribute around half of all the UK's greenhouse gas emissions through their construction and use, we shouldn't be surprised to see property at the heart of such policy. There are at least four forms of energy policy that potentially impact property values. They are:

- Increasing energy prices;
- Tax breaks / rewards for efficiency;
- Increased transparency in property energy use; and
- Potential increased standards for construction and refurbishment.

First, the real cost of energy will likely increase: we already have the Climate Change Levy, the EU are planning a carbon trading system, and there are increasing demands for energy generators to get a greater percentage of their energy from renewable sources. All of these add costs.

From a property owner's perspective, the more money spent on energy, the less is available for rent. Energy inefficient buildings should, therefore, see a flatter trajectory of rental growth than otherwise, as energy costs rise. Similarly, as fuel costs rise in real terms, properties and locations requiring users to travel to them could see their rate of rental growth lessened. 'Well connected locations' might see theirs enhanced.

Secondly, lower energy consumption could be rewarded. It has been suggested that lower property taxes could be levied on more efficient properties – lowering occupier outgoings and making room for more rent to be paid.

Thirdly, policies are already emerging to make the energy efficiency of buildings more transparent. Following the recently approved EU Directive on the Energy Performance of Buildings, which becomes UK law in 2006, all buildings will need their energy efficiency certified and those certificates made available to prospective tenants or purchasers. Occupiers and buyers will thus be increasingly well informed about the energy efficiency of buildings and what works are recommended to improve that efficiency.

Given burgeoning corporate concerns to demonstrate environmental responsibility and the inevitability of environmental performance measurement of both occupied and investment property portfolios, this greater transparency is certain to feed through into property values over time. Inefficient buildings will prove less easy to rent or sell, increasing void risks and exacerbating liquidity issues. Income flows, risk premia, and thereby (current and future) values will all be affected.

Finally, the same EU Directive will raise energy efficiency standards for new and, more importantly, refurbished buildings. We have already seen Part L of the Building Regulations implemented as part of a more concerted effort by policy makers to make buildings more efficient and less carbon productive.

With new buildings, any higher costs generated by these higher standards can probably be accommodated through a reduced land price. For refurbishments it could prove more of an issue. The new EU Directive on the Energy Performance of Buildings will require property owners to show they considered how to reduce energy consumption for larger refurbishments (1,000 sq m) buildings. If this policy puts more stringent requirements in place over time, then asset values and performance could be affected. If policy strengthens to a point of enforcing works to improve the general energy efficiency of commercial buildings, then the high relative costs of 'retrofitting' properties (as with the recent Disability Discrimination Act 1995) could be substantial.

More information

In summary, the implications of climate change on property investments are likely to be substantial and will manifest themselves both directly (subsidence, flooding, storm damage) and indirectly (regulatory, legislative) over the coming years. When corporate reputation and the spectre of punishments and fines are then also considered, it quickly becomes apparent that climate change isn't simply something happening 'out there' but something that needs factoring into asset appraisals 'here and now'.

This paper has posed a number of questions to which answers are not yet clear. To help illuminate the issues further and attempt some answers, the IPF and IIGCC are planning a joint event in March 2004 to expand on the topics raised in this necessarily brief paper. At that event, a climate change expert will present on the possible futures for the UK climate. Specialists from the sustainability consultancy, Upstream, will review the policy developments likely to impact the property market in the foreseeable future. Finally, research currently being carried out by Kingston University (part funded by IPF) on the effect of these issues on property values will be presented. Though currently quite speculative, this research should provide an early insight into how investors might think about impacts on value.

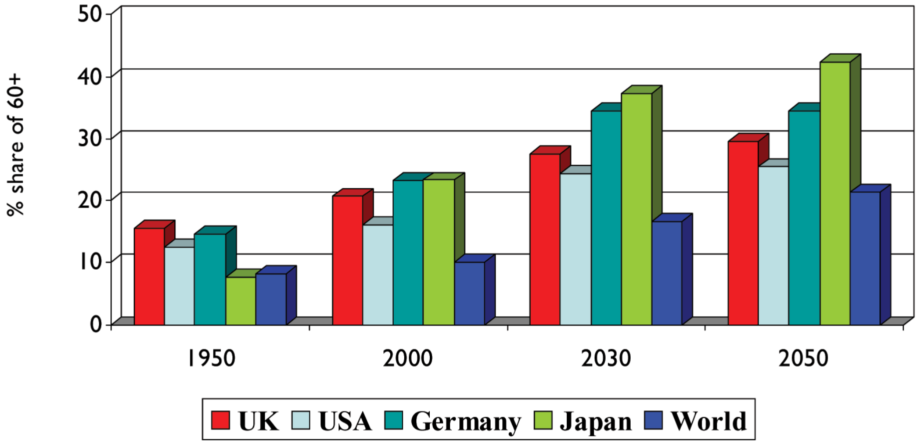
The Institutional Investors Group on Climate Change is a collaboration between 16 pension funds and fund mangers to address the risks and opportunities that the climate change issue poses to investments. If you are interested in finding out more about the 'Property Workstream' of the IIGCC, please contact Paul McNamara at Prudential Property Investment Managers on 020 7548 6862 or visit www.iigcc.org

Demographic Change and Real Estate

Dr. Richard Barkham, UK Research Director, Grosvenor Ltd. recently chaired an IPF event about the impact of demographic change on investment and property. Here we review some of the key themes.

Over the next 50 years, the UK will see an inexorable rise in the proportion of the population aged 60 or over (Chart 1). In fact, as the chart shows, all of the key Western economies will experience profound demographic shift, the extent of change being greatest in Japan and Germany and least in the USA. The reasons for an ageing population differ slightly in each country but are due broadly to declining fertility (measured as the average number of children per female), increased longevity and the post Second World War baby boom (with the associated 'echo boom' of the 1960s).

Chart 1: % Over-60s

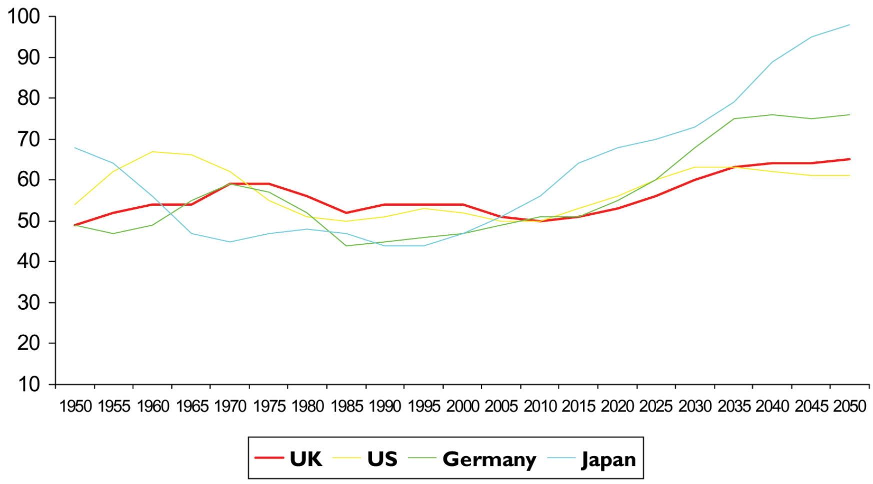


Source: UN World Population Prospects 2002 Revision

In May this year, the IPF held a seminar to consider the implications of demographic change for the UK economy and property market. The key themes highlighted by the seminar are outlined below.

Chart 2: Dependency rate rising

Average Number of dependants per 100 persons of working age (15-64)



Source: UN World Population Prospects 2002 Revision

GDP growth may decline. The output of goods and services depends on the stock of capital (buildings, machines etc.), the number of hours worked by the population and the overall productivity of labour and capital. The ageing of the population can affect output growth in two ways:

1) The total hours worked by the population (see Chart 2); and
2) The rate of capital formation, given that an ageing population runs down its savings.

Garry Young's research for the Bank of England, suggests that, on the basis of conservative assumptions about the rate of productivity growth, capital accumulation and the demographic profile projected, the UK economy could grow at about a rate of 1.3%-1.5% per annum. This is much lower than the current trend rate of growth but still enough to increase living standards about 40% by 2030 and 100% by 2060. This decline will start after 2011 and increase after 2020. However, the forecast reduction in the total hours worked may offset, at least in part, by increasing the current retirement age, a greater rate of technical change and improved productivity.

A slowdown in economic growth will impact on the property market in terms of occupier demand leading to a reduction in development activity and lower rates of rental growth. Assuming a constant cost of capital this implies a higher 'equilibrium' level of yields.

In his presentation, Peter Wood showed that there is likely to be a pronounced regional difference in the way that ageing affects the labour supply. Broadly, the labour market is tight in London and the South East and easier elsewhere in the UK. The obvious implication is that jobs have to move to the regions or, more likely, the population will continue to migrate to the South East.

Share prices will rise more slowly. One popular argument of the late 1990s was that the long bull-run in stock markets was due to 'baby boomers' investing heavily for retirement. Consequently as soon as they took retirement and started to run down their assets, stock prices would fall catastrophically. Although stock markets have lost substantial levels of value the reasons appear unconnected to demographic change. Research is ongoing on the impact of an aging population but existing evidence suggests that individuals after they retire tend to display lower levels of consumption than predicted.

One thing that does seem clear is that property should have a more significant role in institutional investment strategy over the coming years. There are serious dangers to social and macroeconomic stability, to say nothing of the credibility of the fund management industry, of having a large proportion of society approaching retirement and exposed to highly volatile equity markets and the sorts of financial shocks we have recently witnessed. There are strong social and financial arguments for increasing allocations to more stable, higher yielding assets such as property over the next twenty years or so.

Nigel Bodie noted that institutions are increasingly unwilling to take on long-dated mortality risk and expose themselves to 'unexpected' increases in longevity (i.e. having to pay annuities for 25 years rather than the expected 15 years). They would increasingly like to convert lump sums to annuities at age 75 and provide retirement income by some form of investment contract between 65 and 75. Property is an ideal asset to back this contract because of its relatively high yield and low volatility.

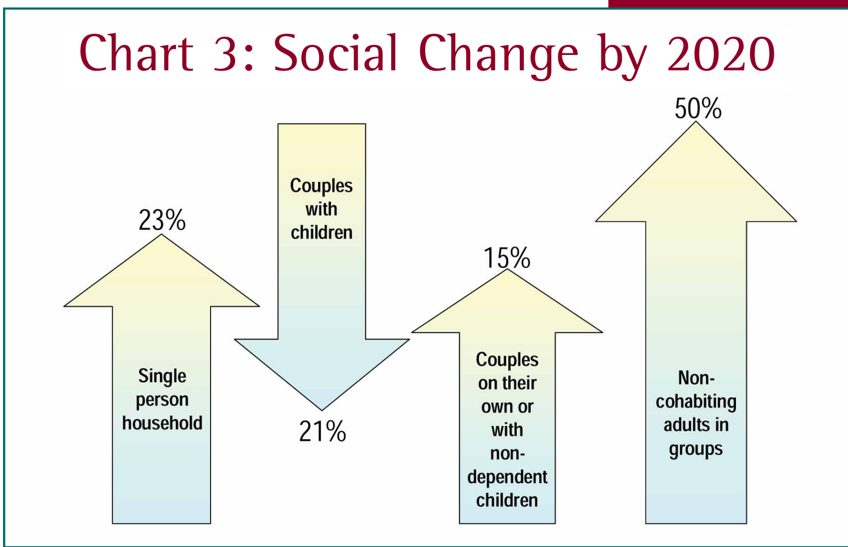
As an aside, the presenters suggested the need to enable institutional investors easy access to housing equity. This would both increase the size of the property investment universe and provide a lifeline for those who have not made sufficient provision for their old age.

Consumer preferences will change. Michael Wilmott of the Future Foundation said that changing consumer preferences will present the property industry, particularly the retail sector, with its most immediate challenge. Older people spend relatively more on eating out, holidays, books and newspapers, cars, education and health, pets and gardening and relatively less on clothing and footwear. As the population ages, shopping centres, with their orientation towards clothing and footwear, will find it increasingly difficult to maintain sales growth. Consumer research also indicates that the over 50s do not enjoy the experience of shopping centres. Other challenges include the decline of the traditional family unit, the rise of the multi-adult household, the large growth of singletons and increasing competition for consumer expenditure from leisure activities. Institutions will have to decide whether to retain traditional long leases and 'hands-off' management or embrace shorter leases and more dynamic, reactive and entrepreneurial centres responsive to consumer change.

In the housing market, the trend for retirees to move from high price locations to warmer amenity towns will continue. Spain and Italy will increasingly become the 'Florida' of Europe. Relatively little has been made of the market for 'seniors' housing in the UK, but this will change.

The seminar concluded that demographic change presents the property industry with some very interesting opportunities if it is clear (and long) sighted enough to grasp them.

By Dr. Richard Barkham, Grosvenor Ltd.



The Whole is Worth more than the Sum of the Parts

A review of the Brindleyplace Limited Partnership

Why did Argent Group PLC go from being a pure trader developer selling off each building at Brindleyplace to being a manager bringing individual buildings back into a united ownership?

Why was an offshore Limited Partnership ("LP") chosen as the most appropriate investment vehicle?

How do you create a vehicle with both institutions and individuals as investors?

Argent bought Brindleyplace as a cleared site in June 1993 at the tail end of a three year period in which property values had fallen continually and the office letting market had been dire. The punt was that a scheme could be created with an end value 100 times greater than the £3m land price. The very real fear was that it would be impossible to create a viable market for brand new offices outside the traditional Birmingham city centre core.

Having bought the land, Argent wanted to lay off risk and recycle cash quickly. This meant that, in short order, three pieces of land (separated by canals from the main development site) were sold off separately. A major first phase including 60,000 sq ft of A3/A1 canalside/festival leisure (food and booze!) and a 75,000 sq ft speculative office scheme was then forward funded with British Airways Pension Fund.

Shortly after that, a further 200,000 sq ft of offices were pre-let to Lloyds TSB and BT and the Lloyds TSB building was forward sold to Coal Pension Properties. The rest of the site (a further 600,000 sq ft of offices) went into a geared development consortium with two other Argent developments in the City of London and Thames Valley Park. At that point in late 1995, it needed the cross collateral of 16 buildings in three centres to give the banks and Argent's prospective joint venture partners the comfort to fund a very significant speculative development programme.

The development consortium assumed that each completed investment would be sold, as and when let, for the best price. Following every sale, each investment would be managed as the purchaser thought fit, possibly to the disadvantage of the owners of other buildings at Brindleyplace. The only continuing thread to the fact that the whole estate had been created by one developer would be an estate management company which would provide basic security, cleaning and maintenance services to the streets and squares. This would be funded by a general estate service charge of about 65 pence per sq ft.

Four years later, with about half of Brindleyplace completed, we had completely changed our vision and our strategy. We concluded that if it was possible to bring most of the commercial space at Brindleyplace into single ownership, the whole could be worth more than the sum of the parts for the following reasons:

- Central management of the investments should add more value than the mere physical management of the public realm. An estate management charge of 65p allows for roadsweeping, landscaping, lighting, security and a tiny amount of public art/performance, but it would not have created a place that was special, lively and positively pleasant to be in.
- Central ownership would provide the opportunities exploited elsewhere (e.g. by successful shopping centre investors) to maximise revenue by assisting tenants who wish to exit in order to be able to re-let the space vacated and thus establish new open market rents prior to rent reviews.
- The LP's aggregate lettable area of around 840,000 sq ft, an approximate annual rent roll of £21.1 million and 34 tenants provide plenty of scope to enable an expanding tenant to increase its floor space within the estate and for the landlord to accommodate those tenants who want to vacate to either assign or surrender their leases.
- Economies of scale in building and M&E maintenance. There are 55 lifts and 1638 fan coil air conditioning units at Brindleyplace that are maintained more cost effectively and to a much higher standard than in a one off building because we are able to deploy a high calibre on-site team.
- The LP can afford to take a far more flexible view of lease length terms than the owners of a single building, as each lease expiry is likely to be insignificant to the total ongoing committed income. Furthermore, the LP will, over time, be able to demonstrate – over the eight office buildings – a realistic track record of lease renewal and re-letting in a way that would not be true of any single building.
- As well as the LP running significant amounts of non-office space (16,000 sq ft retail, 32,000 sq ft of restaurants, bars and a cafes and a 34,500 sq ft health club), the LP also owns and runs the on-site multi storey car park. The contribution made to the overall environment of Brindleyplace by each of these facilities cannot be over estimated.
- For all of these reasons, the banks will be more comfortable about nil or low amortisation on loans as the Estate's value, as a whole, will be continually improved – even allowing for the property cycle – as the imminent expiry of a single lease on a whole building will have little effect on the LP as a whole. Whereas it could have a devastating effect on the value and "bankability" of a single building.

Argent believes that united management and ownership are likely to produce a better environment for the benefit of occupiers and visitors, with a higher running return and fewer voids for investors. Our expectation is that this, in turn, will not only increase value pro rata to the increase in running income, but to an even greater extent as the whole might be valued at a lower yield than the average yield applied to the individual buildings.

So what was the reasoning behind the choice of the structure and the two different types of unit "income and capital" and "capital appreciation only" which have been offered to private investors?

Choice of Investment Vehicle

The Brindleyplace assets are held in a Jersey based Limited Partnership ("LP"). The LP structure was chosen over another commonly used co-investment vehicle structure, the Jersey Property Unit Trust ("JPUT"), as used in other property investment products such as the Hercules Unit Trust ("HUT") and the City of London Office Unit Trust ("CLOUT") for a number of reasons:

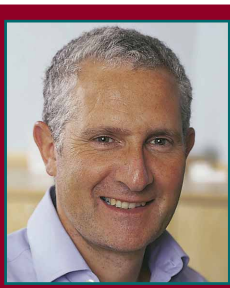
- Cost and speed of set-up;
- Minimisation of regulatory control;
- Number of likely investors;
- Ability to repay capital to investors; and
- Avoidance of CGT liabilities for insurance companies.

The main drivers behind the decision were simplicity and cost. LP's generally are subject to less stringent regulation leading to a shorter timescale for regulatory approval, lower set-up costs and lower ongoing administration costs, making them a more attractive investment vehicle in a number of instances. This is particularly the case where only a small number of professional investors are anticipated and where further capital raisings are not a core objective. However, LPs do suffer from a higher tax leakage than JPUTs when new partners are introduced, making them less flexible and less attractive when the objective of the Fund is to expand and broaden the initial investor base.

The rationale for the use of different vehicles typically relates to different investment objectives. The key differences in the investment objectives and how they influence the choice of co-investment vehicle are outlined below:

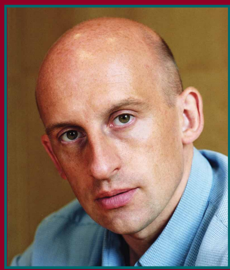
- The Brindleyplace LP was established to own and actively manage the assets at Brindleyplace. The ability to expand the vehicle through future acquisitions was naturally limited by the fact that the development was effectively complete, making the likelihood of further capital raisings remote. With the introduction of new partners unlikely and the nature and term of the opportunity relatively defined and certain, the cost savings and simplicity associated with the LP made it the best choice of co-investment vehicle.
- JPUTs are mainly used on larger funds where the key investment objectives are the expansion of a fund through targeted acquisitions of assets that meet pre-determined investment criteria. Funds that use JPUTs are better for acquiring more assets and expanding the number of investors and creating secondary market liquidity.

The different investment objectives and ultimately the choice of investment vehicle are not the only differences between the operation and terms of the Brindleyplace LP and the JPUTs. In each JPUT, there is a separate specialist asset manager in addition to an investment manager, whereas Argent effectively performs both roles for the Brindleyplace LP. As a result the Brindleyplace LP is a lower cost vehicle to run. The different fee structures and other key operational differences between the vehicles are summarised in the table below.



By Peter Freeman, Argent Group PLC

By Jim Prower, Argent Group PLC



By Gary Taylor, Argent Group PLC

Key terms	Brindleyplace LP	CLOUT	HUT
Life	Initially 6 years, can be extended	10 years	10 years
Asset Manager	Argent Group	Pillar Property	Pillar Property
Asset Management Fee	0.25% of Asset Value	0.25% of Asset Value	0.25% of Asset Value
Investment Manager	Argent Group	Schroders	Schroders
Investment Management Fee	Nil	0.25% of Asset Value	Between 0.10% and 0.15% of Asset Value (depends on overall Fund size)
Performance Fee	See fees, costs and expenses on page 11		20-50% of out-performance above IPD Retail Warehouse Total Returns
Gearing	Maximum of 70% LTV	Maximum of 70% LTV	Maximum of 60% LTV
Gross Asset Value	£310m	£625m	£1,950m
Net Asset Value	£110m	£200m	£1,040m

Source: Jones Lang LaSalle Corporate Finance

The Whole is Worth more than the Sum of the Parts cont...

Structure

Argent established The Brindleyplace LP as a Jersey Limited Partnership in April 2002. The initial life of the LP is until August 2009. The investment objective is the ownership and management of the portfolio with the intention of maximising returns through income and value enhancement. Asset management will be carried out by Argent.

The general partner is Brindleyplace General Partner Limited, a company incorporated in Jersey. Any holder of more than 15% of the shares in the general partner is entitled to appoint a director. For each UK based director there is a Jersey based director and the Chairman will be Jersey based so as to ensure that control is exercised from Jersey. Argent is required to retain a minimum equity holding of 10% if it wishes to continue as the Asset Manager.

Net revenue will be distributed to investors on a quarterly basis. This will consist of the gross revenue less ongoing costs including bank interest, asset management fees and operating expenses.

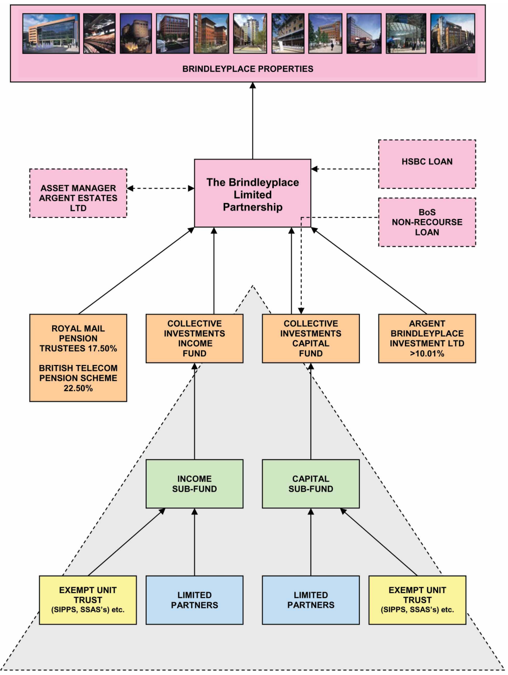
Partnership Interests

British Telecom Pension Scheme and Royal Mail Pension Trustees sold Five Brindleyplace and Three Brindleyplace respectively to the LP at market value and then increased their gross exposure to Brindleyplace by taking 22.5% and 17.5% of the LP. To date, Collective Investments (Trust Managers) Limited have placed 32% of the partnership with private investors which leaves Argent with 28%. Argent intend to reduce their stake to just over 10%, through Collective Investments, over the next few months.

Collective Investments have offered private investors the opportunity of investing in the LP through two different Feeder Funds, the Income Fund and the Capital Fund. The Income Fund simply distributes the LP revenue on a quarterly basis. The Capital Fund is geared to a higher level than the main LP by using an additional debt facility. All of the revenue due to the Capital Feeder Fund is used to amortise the additional loan, with investors relying on capital appreciation at the end of the LP for their returns.

The minimum equity investment for private investors is £50,000.

Fig 1: Diagram of Investment Structure



A diagram outlining the investment structure is shown in Fig. 1.

Gearing

The LP has entered into a £200 million non-recourse syndicated senior debt facility with HSBC Bank plc and six other banks to finance the acquisition of the properties. This represents an LTV ratio of 64%. The entire facility is subject to an interest rate swap fixed at 4.79%. The margin on the HSBC Loan is 0.80% p.a., which will decrease to 0.70% p.a. if the LTV ratio is less than 60%.

By August 2008, the LTV must be no greater than 60% which should be achieved by growth in asset values, failing which amortisation will have to be instigated at an appropriate time.

Collective Investments have arranged a further debt facility with Bank of Scotland for the Capital Feeder Fund. All of the income due to the Capital Feeder Fund will be used to amortise the Bank of Scotland loan.

Control

The general partner will have overall responsibility for management of the LP. The general partner's responsibilities will include monitoring the performance of Argent as asset manager. Any decisions, approvals or resolutions required will need a simple majority of the votes of the shareholders of the general partner.

Argent, as asset manager, will be responsible for the day-to-day management of the assets. Argent's responsibilities will include:

- Making acquisition and disposal recommendations to the general partner;
- Liaising with other owners on and adjacent to Brindleyplace to ensure a co-ordinated management approach to protect and enhance property values;
- Preparation and execution of the annual business plan to enhance income streams and property values;
- Preparation of financial reports and accounts;
- Maintaining accurate, up-to-date accounting records and property information;
- Cash and debt management;
- Day-to-day conduct of the partnership's business;
- Conducting all lease reviews and renewals ;
- Arranging lettings ;
- Employing, training and properly supervising staff;
- The procurement of estate management services; and
- Negotiating third party finance.

Liquidity

Investors will be free to transfer all or part of their interests in the LP at any time subject to the approval of the general partner of the LP, which is not to be unreasonably withheld. However, at least two months notice of intention to dispose must be given to allow the other investors in the LP a reasonable opportunity to negotiate an acquisition of those interests. There are no pre-emption rights.

Fees, Costs and Expenses

Asset management fees are set at 0.25% of the gross value of the partnership assets. Audit, Jersey administration, bank agency and valuation fees are expected to amount to c. £125,000 per annum.

A performance fee will be payable to Argent either on the sale of the properties or valuation of the properties in August 2009 if there is an election to continue the partnership. For the private investors, the performance fee is based on 20% of any performance in excess of a 10% IRR p.a., calculated from the date of entry and on the Feeder Funds' gross entry costs. For the institutional investors, the performance fee is based on 20% of any outperformance in excess of 1% above the IPD Key Centres Index.

Exit & Termination

The LP has an intended life of six years to August 2009. Prior to this date, Argent will recommend an appropriate exit route which (subject to satisfactory prevailing market conditions) could include piecemeal or wholesale disposal of the buildings, restructuring the capital of the partnership by refinancing the debt or seeking new investors. The investors will be given the following options:

- To continue the life of the LP;
- To exit individually (subject to other investors taking up their interests); or
- To terminate the LP.

The property market will be monitored continually by Argent with the objective of achieving the optimum timing for exit. A simple majority of investors will be required to terminate the LP at any time after August 2006.

Any proposal to terminate the LP prior to August 2006 will need the approval of investors holding at least 75% of interests in the partnership.

If a majority of investors wish to continue the LP beyond August 2009, then the net asset value of the partnership assets will be obtained from the average of three valuations by reputable independent valuers. At the same time, Argent will investigate the possibility of arranging funding to buy-out the interests of investors wishing to exit and the establishment of a "market" for investors.

Once the valuations are available, if over 50% of the investors still wish to retain their investment they will (if no other options are available) be required to purchase the interests of those investors wishing to realise their investment.

The arrangements described above have been designed to ensure that investors have a degree of certainty as to the timing of the realisation of their investment and that the price obtained will be a "market value" without the need to embark on a marketing/bidding process.

The New Anti-Money Laundering Regime: A Property Overview

Mark Cooper reviews a recent IPF lecture

When it first became clear that new money laundering rules would have a serious effect on the way property people did business, there was a not entirely unpredictable furor.

"It's a bureaucratic nightmare"; "my clients will just refuse to deal with this," and "the most effective way of losing millions in inward investment" were just a few of the printable public reactions from aggrieved investment agents.

Nonetheless, the Proceeds of Crime Act 2002, and the Second European Directive on Money Laundering are in place and enforced. No one who deals with investment transactions can afford to ignore them.

In September, the IPF held a lecture: The Anti-Money Laundering Regime: A Property Review to give members an overview of the new legislation, what will it mean to them and what they need to do.

Money-laundering is pretty much exactly what one might imagine, the cleaning of ill-gotten gains through some sort of transaction, leaving the criminal with either sparkling clean cash or assets, which can then be spent or traded without fear of prosecution.

As far as property goes, the National Criminal Intelligence Service – which is as close to the FBI as Britain gets – worries that criminals or terrorists could use property as a way to hold on to their cash, rather than as a quick fix to turn dirty money into clean.

Cliff Knuckey, from Scotland Yard's anti-money laundering unit, says: "For criminals, success depends on their being able to not only get their money into the system, but to do it in a way that gives them anonymity. We're asking the industry to assess the risks and know whom they're dealing with."

Rupert Johnson, head of commercial valuations at Knight Frank and the partnership's money laundering reporting officer (a position which is a statutory requirement in firms which deal with financial transactions) says: "Ever since 9/11, laws against money-laundering, which had previously been mainly targeted against drug money, have become a very serious matter.

"It may be much added bureaucracy, but its the law, we are not above the law, so we'll just have to get on with it like it or not!"

In case anyone thinks the regulations can simply be avoided, Royal Bank of Scotland was fined £750,000 last December by the FSA for failing to comply with the new regulations.

Non-compliance with the Proceeds of Crime Act is a criminal act: individuals who do not report suspicions of money-laundering could face up to two years in prison and unlimited fines (which could also be levied on their firms) if a client turns out to have laundered money.

The rules require companies to formally identify the investors with which they do business; keep records of these identity checks for five years; appoint a compliance officer; and set up internal reporting procedures to identify anyone suspicious and report them to the police.

Agents will be required to identify the client involved in any given transaction, and any parties he may be acting for if he is a go-between, as soon as is reasonably practical after contact is first made between agent and client.

Investment management training consultant Maggie Stoker, of MS Consultants, says: "Property professionals have previously relied on comfort letters from solicitors and do not generally verify the underlying client or source of funds, but this will no longer be enough.

"Agents must carry out their own checks, train staff and keep records."

Johnson says there may well be an inevitable flood of "Suspicious Activity Reports" to NCIS when the legislation comes into force at the beginning of next year.

"Although I am not aware of any successful prosecutions of people for failing to report suspicion of money laundering, no-one wants to be the first, with a monetary fine and up to two years in prison together with a tarnished reputation for the firm involved so we, and I'm sure firms in the same position, will report wherever we have the slightest suspicion.

"And if you are a professional, you are obliged to report, even if it's something you overhear at a dinner party. Most of the money laundering will come from minor fraud, but you really can't be too careful."

By Mark Cooper, Estates Gazette

One cry from the industry has been: "But we'll lose investors to other jurisdictions!"

However, these requirements will apply to all relevant businesses in the UK and European Union and similar rules exist under the US Patriot Act. Countries outside the legislation will have to follow suit and, besides, who would want to carry on dealing with a client who cited tough money-laundering laws as a reason for not investing somewhere?

One area that has troubled property people is auctions. Do you have to go round the auction room collecting ID? The Treasury, however, was prepared to accept that a business arrangement is formed with the purchaser only when the gavel came down. From the best practice point of view, auction houses need to check the identity of the purchaser as soon as practical. The Treasury's view is to get it within 24 hours is acceptable.

In January, the Joint Money Laundering Steering Group is set to publish its guidance for the regulated sector and Stoker suggests these would aid property professionals even if they do not undertake FSA-regulated business. The RICS is also due to publish guidelines.

Reports have suggested a staggering £18bn is laundered through the UK each year, some of which must come through property deals.

The money laundering regulations may seem confusing, and may be an extra inconvenience amid the regulation all property businesses are surrounded with, but one thing is very simple – you have to deal with it.

Useful web sites

www.ncis.co.uk/ec

National Criminal Intelligence Service: Link to the Economic Crime Unit to where suspicious activity reports (SARs) should be made. Provides advice and guidance to professionals in the financial services sector

www.oecd.org/fatf

Financial action task force: Recognised as the definitive global authority on Anti-Money Laundering. In February each year, the FATF issues a Money Laundering typologies report, detailing schemes pertinent to certain financial and business sectors.

www.imolin.org

International money laundering information network: Used by many governments and businesses to assist in defining anti-money laundering strategies and policies.

www.jmlsg.org.uk

UK joint money laundering steering group: Service provided by the British Bankers Association, which assists FSA regulated businesses on how to interpret UK legislation

www.unodc.org/unodc/en/moneylaundering

UN global programme against money laundering: A useful research tool

www.imf.org/external/np/exr/facts/aml

International monetary fund: Now has a greater role in anti-money laundering activity and conducts country audits throughout the year

www.wolfsberg-principles.com

Wolfsberg principles: 11 of the world's largest private banks drafted guidelines related to providing services to high net worth clients.

www.fsa.gov.uk/pubs/other/money_laundering

UK financial services authority: The regulator for UK Banks and other financial services providers, and provides information on risk assessment and risk management techniques related to anti-money laundering initiatives.

The Advanced Education Programme: Plans for new International Module and E-learning Initiative

October saw the start of the fifth cycle of modules, beginning once again with Property as an Asset Class. The new cycle also sees us at a new venue – Broadgate House at 199 Bishopsgate. The course has now been running for nearly five years and over 280 people have now taken one or more modules. In early 2004, we will also be awarding our 65th Diploma!

New International Module

For some time we have been considering a suggestion of a new module which would focus on differences and similarities between key international property investment markets, and consider the role of property as an international asset class. We now wish to take this forward to offer a module in 2004 and hope soon to appoint a module leader. The initial offering will be on a one-off basis and we hope it will have wide appeal – not least to those who have completed modules of the existing programme.

E-learning

We have also set our sights on introducing an element of e-learning into all modules. The aim is two-fold: first, to improve and enrich the learning experience by exploiting technology in appropriate ways and, second, to enable the classroom sessions to be reduced. This is seen as desirable from the employers' point of view but students are not all enamoured of the idea!

Recent AEP participants have been experimenting with a new online training delivery package, designed to complement the face to face workshops and seminars. WebCPD, was used to allow students access to course material and background reading to support their more traditional classroom based sessions. Students were able to log on to the website, produced by i-analysis training, and download materials such as case studies and spreadsheets, view the course timetable, and ask the tutors (and their fellow participants) questions - all from the one website. It is possible to up-date the website quickly and easily and take multiple choice tests on-line. The system is also being used to support the assignments for those studying for the IPF's Certificate or Diploma. This will be done through the use of the forums, where they are able to share information and ask questions of each other and their tutors. The intention is to provide a platform to strengthen the networking which is an important element on all AEP courses.

Applications for the AEP continue to do well, but we could squeeze in a few more for most modules in the New Year and all readers are encouraged to continue to promote the Programme within their organisations. Full details may be found on the web – www.ipf.org.uk or www.cili.org.uk - or may be obtained from the Programme Office at Cambridge International Land Institute (tel. 01223 477150).

Dates:

Introduction to Investment Valuation & Portfolio Theory	22, 23 & 26 January 2004
Financial Instruments and Investment Markets	23, 23, 25 February 2004
Advanced Property Investment Appraisal	26, 27, 28 April 2004
Advanced Property Finance & Funding	14, 15, 16 June 2004
Advanced Portfolio Management	16 & 17, 23 & 24 September 2004

IPF 'badge' given to new property investment courses

The IPF not only offers educational activities itself, but also publicises a range of other relevant courses and events, all working towards achieving the Forum's principle objective to enhance the knowledge and understanding of property as an asset class. Our aim is to ensure that either through our own efforts or through the work of others, that the best quality property investment education is provided in the UK.

To this end, we promote relevant postgraduate courses in the field where we consider the course provides the relevant skills necessary for those operating in the property investment industry. In these cases, the IPF promotes the courses and also invites graduates, where they meet membership requirements, to become members of the IPF.
For the past five years, in addition to the Forum's Advanced Education Programme, only two other postgraduate courses have been recognised in this way – the RICS Post Graduate Diploma in Property Investment offered by the College of Estate Management and the MSc in Real Estate Investment at City University Business School.

Following a recent review by the IPF's Education Committee, this list has been extended and we are delighted to announce now includes:

- MSc Real Estate Investment, University of Reading
- MSc Real Estate Economics & Finance, London School of Economics
- MPhil Real Estate Finance, Cambridge University.

Gradates of these courses are now offered membership of the IPF provided that they also have a minimum of two years relevant experience in the property investment industry, which amounts to fast track membership compared to standard membership provisions.

If you are interested in finding out more about these courses, up to date information is available on the our website (www.ipf.org.uk).

Charles Follows takes the Lead

Charles Follows joins the IPF as its first Research Director

I am delighted to join the IPF as Research Director and lead its ambitious new research programme to enhance the knowledge, understanding, and efficiency of property as an investment class. A range of organisations across the property industry and the IPF Educational Trust have pledged £750,000 over the next three years to fund the initiative. (See www.ipf.org.uk for details.) Research projects already underway include Liquidity, Sustainable Investment and Property and the Independent Financial Advisor.

So how are we going to spend this substantial sum and what are my priorities? The research steering committee and I will harvest potential topics for IPF commissioned research. Whilst we can come up with many ideas, we also want to receive research ideas and proposals from the membership and wider investment community.

As importantly, we will strengthen the existing links with other professional bodies and groups that work in the UK property investment market. We are actively seeking work with, for example, the RICS, BPF, Institute of Actuaries and British Bankers Association. An excellent example of this is the recent submission to HM Treasury on the potential for a tax transparent REIT type product for the UK, in a paper jointly prepared by the IPF, BPF, and RICS. Personally, I look forward to forging closer links with the actuarial profession to examine the issue of property in the asset allocation decision for institutions, given the 20-year decline in property weightings despite property's excellent returns.

In commissioning research and working with other bodies I will ensure that IPF research:

- Supports the IPF mission "to enhance the awareness, understanding, and efficiency of property for members and others in the wider business community";
- Leads the debate rather than merely reacts to events;
- Is robust and technically sound;
- Is practicable and relevant to IPF membership; and
- Continues to be independent and evidential and not merely a lobby for a particular viewpoint.

This later point is vital. Our ambition is to position the IPF as the authoritative and independent source of research on the UK property investment market. We want for Government and others to regard the IPF as the first port of call for independent research about UK property investment.

Whilst an essential requirement of the research programme will support the academic understanding and technical development of the UK property industry, a large measure will be aimed at directly benefiting you, the IPF member. I intend to introduce a 'so what test' for all research. By this, I mean I will be asking research providers to ensure their work meets the needs of an IPF member reading their latest research report, by considering the following questions:

- So, what do I now know that I did not know before?
- So, what will I now do differently in the UK property investment market now I have read the research?

An important part of the research programme will be the regular dissemination of the findings to the membership and industry through Forum View, member meetings, the press and the website. So look to the regular programme of IPF events for details of the latest research.

The plan is to run a series of longer-term thematic studies, such as risk (phases 1 and 2 are completed with phase 3 under consideration) and liquidity (phase 1 in progress and phase 2 to follow), whilst delivering a series of shorter-term projects on current and immediate issues. An example of the latter type of project is a proposal to look at the impact of shorter leases on portfolio returns.

Ideas for Research - what next?

Earlier this year, the Research Steering Committee under the chairmanship of John Gellatly, with Stephen Palmer as research consultant, commissioned a report "Property Research Priorities in the UK" (for the report, visit www.ipf.org.uk). This is an excellent starting point for building the research programme over the next three years.

However there is an open invitation for all IPF members, research organisations, academic institutions, and others interested in the UK property investment market to come forward with topics for research. With a finite budget, we will have to prioritise resources but we also plan to participate in joint research projects with others, as part of a funding consortium to make our funds go event further.

Charles Follows: A Career History

Until recently, Charles was a director in the research department of CB Richard Ellis, responsible for the Forecasting and Investment Strategy Team. Previously he managed a number of property investment portfolios, worked for an investment bank and was Head of Research at Healey & Baker. Charles has 25 years of practical experience of the UK property investment market. He qualified as a chartered surveyor after studying for an estate management degree. Charles holds an MBA, a Diploma of Mathematics and studied at the Investment Management Programme, London Business School.

Charles can be contacted by telephone 0207 7695 1649 or 0208 343 1372 and by email at cfollows@ipf.org.uk. He will be based at the IPF offices and at home.

Please contact Charles Follows, or any member of the IPF Research Steering Committee, with ideas.

Research Committee

John Gellatly, Credit Suisse First Boston (Chair)

Stuart Beevor, Grosvenor

Robin Goodchild, LaSalle Investment Management

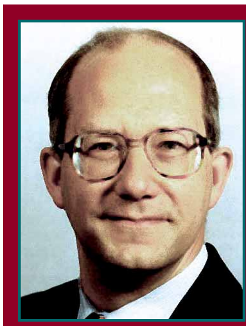
Amanda Keane, IPF

Tony Key, CASS Business School

Paul McNamara, Prudential Property Investment Managers

Phillip Nelson, Nelson Bakewell

Stephen Palmer, Seven Dials Consulting



By Charles Follows, IPF

2003 IPF Membership Survey

The headline results

This past August the IPF conducted a survey of its membership in order to obtain feedback on the services on offer. This was the first time we have completed such a survey and the feedback was hugely positive. Highlights of the results are as follows:

By Sunita Dhawan, IPF

What are we doing well?

- 76% of you thought your membership was valuable or very valuable and 100% of you plan on continuing as IPF members.
- 86% of you thought that our services and programmes were excellent or good, as was our ability to serve the needs of the investment industry.
- 69% of you thought that the research initiatives were good/excellent. Both the Investors' Intentions Survey and Consensus Forecast came top of the list of IPF products in terms of in usefulness. 78% thought the Investment Intentions Survey was useful/very useful and 68% thought the Consensus Forecast Survey was useful/very useful.
- 79% thought that the IPF was excellent/good at keeping the membership current on issues.
- 80% thought that our educational offerings were good to excellent.
- 81% thought that eNews Update was useful/very useful. 63% thought that Forum view was useful/very useful and 55% thought that the website was useful/very useful. Now that our new website has been launched (September 2003) we hope this latter percentage will go up.
- 82% had attended an Annual Dinner or Lunch in the last four years.
- 92% thought that the IPF subscription rate was about right but 7% thought it was too low!

What could we be doing better?	What are we doing to improve?
52% of you didn't feel that you used the IPF's services very often. 14% of you hadn't actually attended a lecture or member event in the last few years.	Notwithstanding this 18% had been to more than four events and 68% to more than one event (excluding lunch/dinner) in the last year. The IPF continues to add to its courses with a variety of different types of events, varying the time of day they are held as well as the location. Please visit the IPF website (www.ipf.org.uk) for an up to date list of what's on offer around the country.
40% of you cited networking as the most important reason for becoming a member.	To encourage even more networking we are planning a variety of different gatherings where net-working is the primary purpose. We started to hold informal members' parties in all the regions and plan more lunchtime forums.
Our performance outside London was seen as an area that could be strengthened.	We are working with the different regional committees to enhance the offer to members who live outside of London. We plan to increase the number of events that are members' only; bring the best of the educational offerings to all the regions; and replicate the success of the London and Midlands dinners elsewhere in the UK. If you would like to become involved on one of the regional committees please contact sdhawan@ipf.org.uk.
66% of you said that you hadn't attended an AEP course.	The IPF is aiming to make the AEP courses more accessible by introducing e-Learning. We are also considering offering a range of other modules to broaden the appeal of the courses.

Diary

Round up of recent events

North West Region's Launch Event

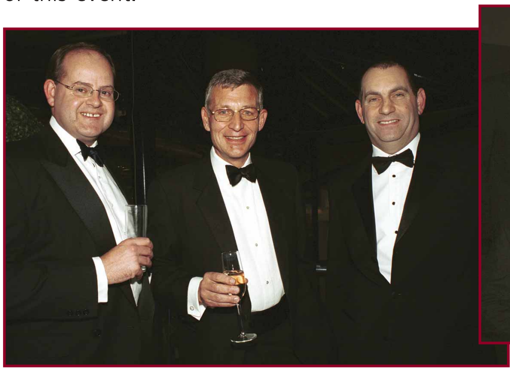
On 1 October, 75 people attended a successful launch event in Manchester which featured presentations by Ian Marcus on behalf of the IPF, Gerald Blundell, LaSalle Investment Management and Ian Blake, Matrix Securities Ltd. The event marks the start of a series of events the regional committee plan to hold which include lunchtime lectures, visits to Spinningfields and the Northern Quarter and an annual lunch next September.

HOK Lunchtime Forum

Developing a master plan for London's West End was the topic of the lunchtime forum held at HOK's offices on Oxford Street. The speakers from the NewWestEnd Company and Jones Lang LaSalle outlined the exciting plans to transform Oxford, Bond and Regent Streets into the premier shopping district in the world. The presentations were so interesting that a follow up presentation will be held this Spring.

2003 Midlands Annual Dinner

A record number of people attended this year's Midlands Annual Dinner, which was held at the end of October in Birmingham. The after dinner speaker was Anthony Glossop, St Modwen Properties Plc, whose remarks offered a wry take on the property industry. The event lasted well into the early morning and was dubbed a success by all who attended. The IPF would like to thank First Title for their sponsorship or this event.



Upcoming event dates for your diary (partial listing)

10 December	**Property Derivatives: The Story so Far (London)**
20 January	**Joint Event with SPR: Outlook for Property and the Economy 2001 (London)**
27 January	**Annual Lunch (London)**
18-19 February	**Joint Event with Institute of Actuaries on Liquidity (London)**
16 March	**Joint Event with IIGCC on Climate Change (London)**
21 April	**Hot Property II (Birmingham)**
23 June	**Annual Dinner (London)**
14 October	**Midlands Annual Dinner (Birmingham)**

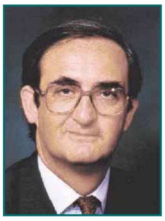
From Foresyte Club to Forum: Past Presidents' Retrospective

IPF President 1988-89 - Adrian Wyatt

"For the times they are a changing" sang Dylan. Times have changed significantly since the early 80's when a few radicals started the Foresyte Club (man of property, homophone and poor pun). Property was emerging as a better researched institutional asset class having been tainted by the oil crisis of the 70's, the property and secondary banking crash and the humiliating spectacle of the Bank of England sponsored 'Lifeboat'. The prevailing criticism of property centred on the quality of research, the valuation process, liquidity, trading costs, lack of transparency, terminology and the 'language' of surveyors. The Foresyte Club, a handful of analysts, brokers, bankers and surveyors, was determined to shed more light on the opaque world of property and in particular address the way surveyors were trained.

The idea was to introduce further training for investment surveyors to specialise in investment theory and practice and to better understand the workings of financial and capital markets. The Society of Investment Analysts took up the challenge and was prepared to team up with the RICS to introduce specialist exams. Unfortunately the Institution declined - a great personal disappointment. Undaunted, and backed by the Mothers' Bunch (a surveyors' dining club) the Investment Surveyors Forum was formed with the financial and administrative backing of the RICS and this foresighted support led directly to the foundation of the IPF.

The basic idea of combining many skills and professions to raise the level of debate, understanding and influence of property-related professionals has worked well. The educational and training programmes are well respected and a testament not only to the creation of the 'founding fathers' but also to all those who work tirelessly to promote the best interests of the Forum and the property industry at large. The IPF is now a pre-eminent organisation with significant professional, educational and political influence. Bob Dylan was right. In the case of the IPF, times have changed very much for the better. I'm confident that the next 15 years will be as exciting, challenging and fulfilling as first. Happy Anniversary!



IPF President 1993-1994 - Andrew Graham

The Investment Property Forum (IPF) was created in 1988 by senior surveyors who recognised that there was "no voice" within the property investment market. When I became Chairman in 1993, the IPF was already establishing itself as the principal representative body for the property investment arena. Many of the initiatives that I was involved with at that stage have now come to fruition and are now part of the normal day-to-day activities that the IPF provide.

In 1993, there were 600 members of which only 12% were from outside the surveying profession. Membership now stands at 1,445, with over 25% from outside the profession: The first annual lunch was launched with 370 guests, now over 1,400 people attend every year; there were originally 10 lectures and seminars a year, now there are over 40, held not only in London, but also in the Midlands, and Scotland. The management structure has evolved as the IPF has grown and today the Chairman and Management Committee are no longer likely to be from the surveying profession. From providing representation to the Bank of England Property Forum, to being invited by the Treasury to present views on the outlook for the property investment market, the IPF has come of age.

In my opinion, one of the major achievements of the IPF is the Advanced Education Programme, which has just celebrated its fourth anniversary. Over 280 people have now participated, with over 65 people now holding the IPF Diploma. The recent establishment of the Forum's Research Programme, together with the appointment of a Research Director and a £250,000 per annum budget, means that the IPF leads the way in education and research.

One of the principal challenges for the future is that the property industry as a whole must have "one voice", which is not merely a lobbying group. As the IPF has billions of pounds worth of property under management through its membership, it will have a vital role to play in this field. The IPF also has a crucial role to play in improving the functioning and efficiency of the property investment market. Its research programme will

Adrian Wyatt
Wyatt Quintain Estates and Development

Andrew Graham, Colliers CRE

IPF President 1993-1994 - Andrew Graham cont..

play an important part as the IPF works with the BPF and RICS in supporting the UK Government and Treasury to lower property taxes, allow securitisation and tax transparent vehicles. With the volatility in the equity markets and the problems in the pension industry, property has a vital part to play in providing a long-term answer with its long leases and the stability of income it provides. The recent project of the education of IFAs is an important way forward. It is vital that today's flows of international capital do not bypass the UK property industry. The IPF itself will need more funding with its relatively small subscriptions for individual membership. The Educational Trust will also need to have a permanent endowment in these times of low interest rates. The IPF's place in Europe must be addressed and I believe that it should expand across Europe, creating international educational programmes and research with individual country memberships.

In my opinion, the IPF has achieved more than ever could have been envisaged when it was first launched, and it has now established itself as the authoritative investment body in the UK, promoting property as an asset class, undertaking research and special projects, providing education and encouraging discussion and debate.

IPF President 1997-1998 - Edward Luker

In 1986 the property investment industry was incensed to witness the arrival of the investment banks through the securitisation of Billingsgate, which was, after all, 'a property deal'. At a Mothers Bunch investment lunch shortly thereafter, John Plender told a number of the leading lights in the industry a few home truths – "Gentlemen, the world has changed, it is less about property and all about financing on a global scale – either raise your game or I suggest you sell out now!"

From these few words grew the Investment Surveyors Forum which, whilst a success, proved to be too much of a closed shop and did not begin to breathe the new life into the industry that needed it so badly.

In 1988 this need was finally recognised and the Investment Property Forum was created, embracing, as it now does, all aspects of the property investment industry. This change proved to be the catalyst the Forum, and indeed the market, needed. The Forum now holds some of the most thought-provoking debates, has provided much greater understanding into today's key issues, provides a unique training platform through the Advanced Education Programme, and is increasingly seen as a voice within the property industry that 'you can trust'.

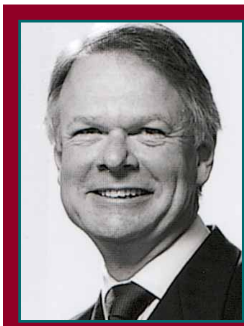
So it's now 'mission accomplished' – I think not!

Our market never ceases to evolve and the Forum must be at the front, leading the new ideas – the latest research initiative will undoubtedly form a major part of future thinking but new challenges are already hitting us:

- How does the Forum relate to the new REITS debate?
- Private investors now form a material part of today's investment market – are we making sure 'they enjoy the experience' and will stay with us?
- How is the market adjusting to take into account an ever increasing 'indirect market' and its future liquidity?

For me, it was a pleasure and privilege to be Chairman and member of the committee for so many years. I witnessed, at first hand, the level of commitment and quality of thought that goes into all of these types of issues – there is no doubt in my mind that the Forum and its members will rise to these and future challenges.

Although not born in a coffee house, similar to Lloyds of London our successors will, I am sure, look back fondly to that eventful 'Mother's Bunch Lunch'.



Edward Luker, CB Richard Ellis Ltd

INVESTMENT PROPERTY FORUM

3 Cadogan Gate London

SW1X 0AS, UK

tel: (+44) 020 7334 3799

fax: (+44) 020 7334 3872

email: ipfoffice@ipf.org.uk

web: www.ipf.org.uk