



Investment
Property Forum

Investment Property Focus

Property: What level have we reached?

The Journal of the
Investment
Property Forum
Issue No. 28
Summer 2015

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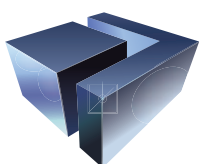
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IPF Research Programme 2015–2018

The IPF Research Programme is an important provider of high-quality, independent research focused specifically on property investment. We can only continue to fulfil this role due to the support of our 21 research sponsors. We are very grateful to this group of companies for their support of the 2015-2018 Programme.



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This edition of Investment Property Focus includes a record number of articles outlining the key findings within papers published by the IPF Research Programme. Thanks to the sponsors of the new 2015-18 Programme (listed on the inside front cover), we can look forward to many more.

Although not IPF-sponsored research, the summary of De Montfort University report on the major commercial property lenders operating within the UK is an annual feature in Focus. For the year up to 31 December 2014, the report authors, **Bill Maxted** and **Trudi Porter**, found that there was a decline of 8.5% of loans secured by commercial property only, taking the total to £165.2bn. The hedging of these commercial property loans, and those in the future, is the subject of the IPF Research Programme paper by **Ivan Harkins**, **John Rathbone** and **Brian Phelan** of JC Rathbone Associates.

Ben Burston and **Andrew Burrell** of JLL look at the drivers for rising in demand for real estate investments, its durability over time and the impact on market pricing and implications for fair value. Complementing this research is that on measuring the liquidity premium for illiquid assets – **Gianluca Marcato** of Henley Business School, University of Reading outlines the use of different measures and models simultaneously to gather empirical evidence.

With the UK's membership of the EU under debate, the IPF organised a roundtable discussion to discuss the implications of a BREXIT for the property industry. The consensus was that many in the industry are, as yet, unprepared for the various scenarios that could result from the political uncertainty – read the article to find out what these could be!

Over the last 10 years, UK allocations to non-traditional real estate (other than offices, retail or industrial) have increased from 4% to 11% of the IPD universe. **Nick Mansley** and **Colin Lizieri** of the University of Cambridge Real Estate Research Centre were commissioned by the IPF Research Programme to consider whether there were characteristics that mean some 'real assets' are not considered to be real estate.

Continuing the 'alternatives' theme, **Savvas Savouri** of Toscafund Asset Management writes on the role of the private rented sector in a modern economy. IPF Research, undertaken by a team led by **Michael Oxley** from the University of Cambridge, on the prospects for institutional investment in social housing is also outlined in this publication, together with key points from the subsequent panel discussion.

Legislation and regulation with regard to sustainability issues grows apace. **Alan Cook** and **Siobhan Cross** of Pinsent Masons provide a timely update on the recent Energy Efficiency Regulations 2015 that set out minimum energy efficiency standards (MEES) for England and Wales, together with details of the Scottish equivalent. These affect the future rental potential (and that of sales in Scotland) of energy inefficient commercial properties. **Alex Hill** of Aviva Investors then provides a briefing on ESOS, which requires all large organisations in the UK to carry out energy assessments every four years. The first compliance deadline is 5 December 2015.

As usual, summaries of the most recent IPF UK and European Consensus Forecasts are included. Joining these two regular summaries is that of the (now) annual update of the Size & Structure of the UK Property Market research by **Paul Mitchell** of PMRECON.

As education is one of the primary tenets of the IPF, any change to the Investment Education Programme (IEP) is news. As outlined in this edition, the IEP will be run by the University of Reading on behalf of the IPF from October 2015. Other IPF news is covered in the 'activities & announcements' section, including the appointment of **Chris Ireland** as our new Chairman.

Hope to see you at one of our upcoming events.

Sue Forster

Chief Executive, IPF



Investment
Property Forum

Midlands Dinner 2015

**Thursday,
15 October 2015**

ICC, Broad Street, Birmingham

18:30 Pre-Dinner drinks

19:30 Dinner

Black Tie

SOLD OUT



**Guest Speaker:
Rory Bremner**

Ticket price: £110 +VAT

£132 inclusive of VAT @ 20% per person. The ticket price excludes wine and other beverages.



This event is kindly sponsored by:



LLOYDS BANK



The UK commercial property lending market

BILL MAXTED AND TRUDI PORTER
De Montfort University

In May 2015, De Montfort University published its sixteenth research report on the lending patterns of the major commercial property lenders operating within the UK during the year up to 31 December 2014. A total of 86 lending teams operating out of 83 lending organisations contributed data to the survey. The lending organisations comprised 51 banks and building societies, 11 insurance companies and 21 other non-bank lenders, including debt funds, asset managers and other organisations that are prepared to provide junior debt, mezzanine finance and, more recently, senior debt.

Throughout this research, 'commercial property lending' is taken to mean all lending secured on UK commercial property and held on the balance sheet of lending organisations. This includes residential investment and development but excludes owner-occupier residential mortgages. Where reference is made to the commercial property loan books of lending organisations, this is taken as the net exposure to UK commercial property excluding equity finance (i.e. net of any loan amounts sold down to other lenders and net of any securitised loans unless otherwise stated). The nationality of the banks is determined by the location of their head office. The term 'Insurance Companies' refers to all insurance companies irrespective of the geographic location of the head office.

Value of outstanding loan books

A total value of £181.3bn (£198.4bn last year) of outstanding debt, including loans of approximately £16.1bn secured by social housing (but excluding equity participations) was recorded, with a further £20.3bn (£13.7bn at 31 December 2013) of loans being committed but not drawn at 31 December 2014.

Figure 1 presents the categories of lending organisations and their value of outstanding senior debt, junior/mezzanine finance and undrawn amounts.

Figure 1: **Category of lender and type of finance**

Type of lender	Reported UK outstanding senior debt loans including social housing £m	Junior debt mezzanine finance £m	Total £m	Reported amount of committed funds not yet drawn £m
UK Bank and Building Societies	97,125	201	97,326	13,886
German Banks	16,763	–	16,763	751
Other International Banks	27,005	169	27,174	1,634
North American Banks	7,878	–	7,878	629
Insurance Companies	21,069	402	21,471	977
Other Non-bank Lenders	7,390	3,321	10,711	2,426
All Lenders	177,230	4,093	181,323	20,303

Figure 2 shows the aggregated value of outstanding debt including loans secured by social housing and recorded in the loan books of organisations that participate in the research. With regards to loans secured by commercial property only, the £165.2bn recorded at year-end 2014 represents a decline of 8.5% from £180.5bn recorded at year-end 2013. Of the total £165.2bn, £154.5bn is held by banks, building societies and insurance companies and £10.7bn held by Other Non-bank Lenders.

Total size of the UK commercial property lending market

It is extremely difficult to ascertain the total size of the commercial property lending market in the UK. As part of the process of widening the scope of this research to make it as comprehensive as possible, in addition to £165.2bn collected by the research the following amounts of outstanding debt have been identified:

- Approximately £16.8bn of debt has been identified from the published financial statements of non-contributing organisations;
- Fitch Ratings estimates that the total outstanding balance of UK CMBS at year-end 2014 was approximately £24.8bn;
- By year-end 2014, it is estimated that NAMA held assets of an approximate value of £3.8bn located in the UK and which will not have been reported to this research.

With these additions, an estimated total value of £206.8bn of outstanding debt was secured by commercial property. This compares with £232.5bn recorded at year-end 2013. In addition, a further £20.3bn of loans were committed but not drawn at year-end 2014.

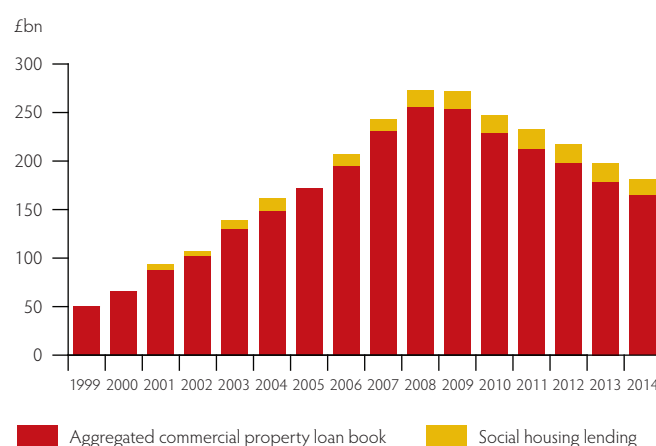
Value of loan originations completed

During 2014, £45.2bn (29.9bn in 2013) of loan originations, acquisition finance and including refinancing on commercial terms, was recorded as having been undertaken. Figure 3 shows the allocation of this total by type of lender.

Figure 3: **Market share of loan originations**

Type of lender	Value of originations £m	Market share %
UK Bank and Building Societies	17,685	39.0
German Banks	5,222	11.5
Other International Banks	5,920	13.0
North American Banks	4,923	11.0
Insurance Companies	5,421	12.0
Other Non-bank Lenders	6,072	13.5
All Lenders	45,243	100.0

Figure 2: **Aggregated value of outstanding debt**



Approximately 46% of the £45.2bn of loan originations was undertaken by just six organisations and 60% by 12 organisations. This compares with 48% and 63% respectively, recorded at year-end 2013. The decline in proportion originated by the 'top 12' demonstrates the increasing influence of new lending organisations entering the market.

Of the £39.2bn of loan originations undertaken by banks, building societies and insurance companies, 83.5% was allocated to investment projects, 4% to commercial development, and 12.5% to residential development. By contrast, the Other Non-bank Lenders allocated to 26% to development projects (13% commercial, 9% residential and 4% 'other' development).

Only 16 organisations from the 44 active banks, building societies and insurance companies were prepared to write a loan of £5m or less but 28 would write a loan of between £51m and £100m and 29 at above £100m. Of the Other Non-bank Lenders, only two of the 20 organisations were prepared to write a loan of £5m or less, while 15 would write a loan both of between £51m and £100m, and at above £100m.

Securitisations, syndications and club deals

Two true CMBS issuances were reported at year-end 2014, amounting to £282bn, and one synthetic transaction of £1.6bn. Approximately £4.7bn of debt was reported as being syndicated by 12 organisations and £7.8bn as the value of participations in club deals. This total of £12.5bn compares with £6.8bn similarly reported for whole of 2013.

Profile of outstanding debt

Figure 4 shows the proportion of outstanding debt due for repayment in each of the next five years individually from 2015 to 2019, from 2020 to 2024 (inclusive) and finally after 2024. This is presented for all lending organisations that contributed data to this research.

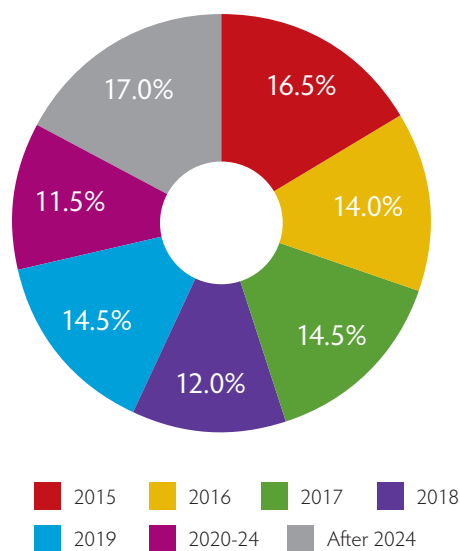
During the next five years between 2015 and 2018 inclusive, approximately 72% of all outstanding debt (£109.6bn) is due for repayment. This proportion is higher than 71% reported at year-end 2013 but the same as that recorded in 2012 and 2011. It is still significantly higher than the proportions recorded at year-ends 2006 and 2007; when the proportion of debt due to mature within the following five years was 61% and 60% respectively.

Nearly 77.0% of the outstanding debt allocated to investment projects had a loan-to-value ratio of 70% or less – this equates to approximately £107bn. Proportionally, this compares with only 63% reported at year-end 2013.

The proportion of outstanding debt with a loan-to-value ratio of between 71% and 100% declined to 14.3% (18% in 2013). At year-end 2014 this represented a value of £20bn.

With regard to the value of outstanding debt with a loan-to-value ratio of above 100%, the proportion declined to 9%, from 19% in 2013, which also resulted in a decline in value to £12bn of debt being in this category.

Figure 4: **Proportion of debt due for repayment – All Lenders**



At year-end 2014, 9.5% of outstanding investment loans had an income-to-interest cover of less than 1x. This equated to approximately £13bn of loans where interest payments could not be serviced by income – the comparative values at year-ends 2013 and 2012 respectively were £18bn and £30bn.

Problem Loans

The value of loans in breach of financial covenant reported to the research was approximately £3.5bn. This compares to £15.8bn at year-end 2013. The research recorded £17.7bn of loans as having been declared in default, compared with £24.5bn at year-end 2013. Lending organisations commented that virtually all their problems related to loans written before 2009. Overall, it was reported that the rate of new impairment was minimal.

SENIOR DEBT LOAN TERMS FOR INVESTMENT PROPERTY

- **Banks, building societies and insurance companies**

During 2014, average senior debt interest rate margins continued to decline – the average margin for loans secured by prime office was recorded at 218.7bps, compared to 252.9bps 12 months previously. For loans secured by secondary offices, average interest rate margins declined more steeply from 306.9bps to 264.1bps.

The average margin of organisations offering an interest rate margin of 210bps and below which would represent loans secured by the best prime property, was 163bps. This is 55.7bps below the overall average. At year-end 2014, the lowest margin was recorded at 100bps and was the first time that margins had fallen to and been recorded at this level since 2007.

Senior debt loan-to-value ratios for loans secured by all commercial property sectors rose slightly during 2014. Those for loans secured by prime office investment projects increased from 65.9% at year-end 2013 to 66.3%. Those for loans secured for secondary offices went from 58.9% to 61.4%.

The average arrangement fees for loans secured by all commercial property sectors continued to decline. For example, for loans secured by prime office property, an average fee of 111.8bps in 2013 fell to 98.7bps at year-end 2014.

During 2014, average income-to-interest cover ratios for loans secured against all prime commercial property declined. For example, for loans secured by prime office property, levels of cover decreased from 1.57x to 1.55x.

- **Other non-bank lenders**

Those organisations that were prepared to offer senior debt would have done so for loans secured by prime property, within a range of 65% to 75% (60% to 80% at year-end 2013) loan-to-value ratio, 130bps to 500bps (175bps to 400bps at year-end 2013) interest rate margin, 0.6% to 1% arrangement fee (0.75% to 2% at year-end 2013) and exit fees to 1% (1% at 2013). The lowest margins/coupons recorded for senior debt loans secured by prime commercial property are comparable with those offered by organisations within banks, building societies and insurance companies.

For senior debt loans secured by secondary property, loan-to-value ratios were recorded within a range of 65% to 75% (50% to 80% at year-end 2013), interest rate margins 150bps to 550bps (250bps to 400bps at year-end 2013), arrangement fees 0.6% to 2% (1% to 2% at year-end 2013) and exit fees to 0.5% to 1% (1% at year-end 2013).

JUNIOR DEBT AND MEZZANINE FINANCE LOAN TERMS

• Banks, building societies and insurance companies

For loans secured by prime offices, the average maximum level of loan-to-value ratio increased for both junior debt and mezzanine from 73% and 81% respectively at year-end 2013 to 74% and 84% respectively at year-end 2014. Interest rate margins declined across all three levels of finance during 2014 and ranged between 125bps to 240 bps for senior debt, 150bps to 750bps for junior debt. For mezzanine finance, the average interest rate margin increased to 800bps from 750bps (year-end 2013) and ranged between 600bps and 1,000bps.

For loans secured by secondary office property and for mezzanine finance, the range of maximum loan-to-value was 75% to 80% which was the same as recorded at year-end 2013. Interest rate margins for all types of finance declined again during 2014 and ranged between 210bps to 260bps for senior debt, 650bps to 750bps for junior debt and 600bps to 1,000bps for mezzanine.

• Other non-bank lenders

Those organisations that were prepared to offer junior debt for loans secured by prime and secondary property would have done so within a range of 50% to 85% (50% to 80% at year-end 2013) loan-to-value ratio, 4% to 12% (9.75% to 15% at year-end 2013) interest rate margin/coupon, 0.6% to 2% (1% to 3% at year-end 2013) arrangement fee, 1% to 3% (1% to 3% at year-end 2013) exit fee and seek an internal rate of return of 7% to 11% (7% to 17% at year-end 2013).

Mezzanine finance for loans secured by prime and secondary property would have been done within a range of 50% to 90% (50% to 85% 2013) loan-to-value ratio, 4% to 15% (11% to 15% 2013) interest rate margin/coupon, 1% to 2% (1% to 3% 2013) arrangement fee, 1% to 3% (1% to 3% 2013) exit fee and seek an internal rate of return of 7% to 17% (9% to 17% 2013).

“Interest rate margins declined across all three levels of finance during 2014”

DEVELOPMENT FINANCE LOAN TERMS

• Banks, building societies and insurance companies

The average interest rate margin was 347bps, which was a decline from 369bps reported at year-end 2013. The average loan-to-value ratio was 59% (58% in 2013) and the average loan-to-cost ratio at both year-end 2013 and 2014 was 68%.

Five organisations (four at year-end 2013) provided terms for speculative commercial development. The average interest rate margin was 386bps, an increase from 369bps reported at year-end 2013. The average loan-to-value ratio was 48% (45% 2013) and the average loan-to-cost ratio was 57% (50% 2013).

• Other non-bank lenders

Those organisations that were prepared to fund senior debt for fully pre-let commercial development projects would offer a loan-to-value ratio 60% to 70% (50% to 70%, 2013), an interest rate margin from 600bps to 1,000bps (450bps to 1,000bps, 2013), an arrangement fee of between 1% and 1.5% (1.5% to 3%, 2013) and 1% to 1.5% exit fee (none recorded in 2013).

Those organisations prepared to offer junior debt for a fully pre-let commercial development would offer a loan-to-value ratio to a maximum of 75%, a loan-to-cost ratio of 50% to 85%, an interest rate margin of 1000bps, an arrangement fee of 2% and seek an internal rate of return of 10.5% to 11.5%.

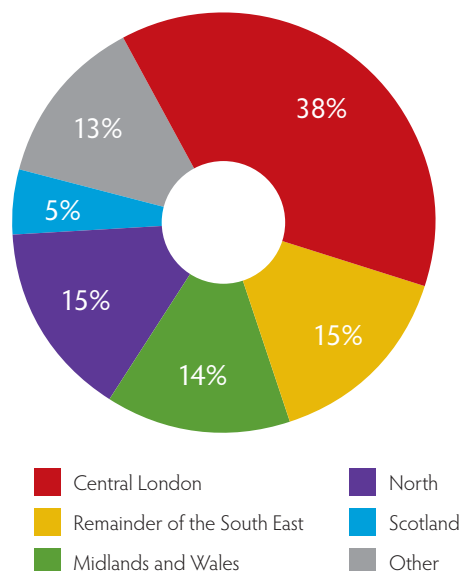
Mezzanine finance for fully pre-let commercial development would be within a range of 40% to 100% loan-to-value ratio, 50% to 85% loan-to-cost ratio and an interest rate margin of 800bps to 1,200bps, with an internal rate of return of 10.5% to 17%. Mezzanine finance was also available for speculative commercial development to a maximum loan-to-value ratio of 40% to 100%, loan-to-cost ratio of 50% to 75%, interest rate margin of 800bps to 1,300bps and an internal rate of return of 12% to 17%.

“The average loan-to-value ratio was 59%”

London vs. regional lending

As shown in Figure 5, for banks, building societies and insurance companies, the South East, together with Central London, at year-end 2014, accounted for 53% of the value of outstanding loan books – this compares with 48% in 2013. This is the highest concentration in these two regions recorded by this research. The 38% of lending recorded in Central London only, is also the highest recorded concentration reported to the research. German Lenders at 76.5% recorded the largest weighting in these two regions followed by North American Lenders at 70%, Other International Lenders at 52% and UK Lenders and Building Societies at 47%. The 'Other' region includes East Anglia, the South West, Northern Ireland and the Channel Islands. Also included in this category are commercial property investment portfolios that are distributed throughout the UK.

Figure 4: **Proportion of debt due for repayment – banks, building societies and insurance companies**



Future lending intentions

By year-end 2014, 84% of the 44 organisations in the category of banks, building societies and insurance companies that were active in the market intend to increase their value of loan originations and 14% intend to maintain their originations at the level undertaken during 2014. Over 80% of organisations intended to increase the size of their loan book and the remaining 18% intended to maintain the value of their loan book. All of other non-bank lenders intended to increase their loan book sizes and 90% stated they intended to increase their loan originations. The 10% that intend to maintain their loan originations were responsible for originating 13% of the total originated during 2014.

Key points from the research

- The size of the overall aggregated UK commercial property loan book is reducing, as is the proportion of legacy debt originated before the financial crisis. The increased volume of lending recorded during 2014 demonstrates that liquidity has returned to the UK commercial property investment market
- These conditions have resulted in lending terms that continue to improve from the borrowers' perspective. This is especially the case in the core prime markets of London and the South East.
- In contrast, it was commented that the regional markets had not experienced the same degree of competition and recovery in asset values as the prime London and South East markets. The recovery in the UK economy has been, and continues to be, uneven.
- Active lenders were less willing to originate loans of £5m or below in value which suggested that the more diverse and competitive lending environment was only really available for the larger deal sizes of £21m and above.
- A number of lenders express their concerns that a future combination of an increase in interest rates and cessation of quantitative easing would result in bond yields moving out. This in turn would most probably be followed by a correction in commercial property yields and a decline in capital values.

Interest rate hedging: A review

IVAN HARKINS, JOHN RATHBONE & BRIAN PHELAN
JC Rathbone Associates

As a result of the financial crisis, derivatives have been much maligned, being described most notably by Warren Buffett as “financial weapons of mass destruction”. The FCA’s Interest Rate Hedging Products¹ review has highlighted to many people that the interests of banks and their borrowers are not necessarily aligned in the execution of suitable interest rate hedging. However, when used correctly, derivatives are beneficial financial tools that can be extremely useful to borrowers in managing their financial risk.

The following article is a summary of the Short Paper² commissioned by the IPF Research Programme to examine how interest rate hedging products have been used historically in the real estate market, how this behaviour has changed over time and provide a framework that borrowers and banks should be encouraged to consider when entering into interest rate hedging to protect real estate debt liabilities.

Why hedge at all?

In very broad terms, there are two types of hedge; a fair value hedge and a cash flow hedge. Interest rate hedging, as predominantly used in real estate transactions, is designed to be a cash flow hedge of the interest payable on floating rate debt. If used appropriately, there is a range of interest rate hedging instruments that allows borrowers to effectively manage their interest rate risk.

Types of hedge

- **Fair value**
to protect against changes in the value of an asset or liability that are due to changes in a particular variable, e.g. changes in capital value.
- **Cash flow**
to protect the variability in the cash flows of a specific asset or liability due to changes in a particular variable, e.g. the cash flow liability from the interest payable on floating rate debt.

Hedging practice prior to the financial crisis

The early UK users of interest rate swaps started hedging due to the very high interest rates experienced in the late 1980s and early 1990s. Use of derivatives to hedge interest rate risk grew as the banking sector began to dominate lending to real estate companies through the 1990s and into the 2000s. The establishment of the UK CMBS market gave further impetus to the use of interest rate hedging as SPVs were structured to meet the rating agencies’ AAA criteria.

As property yields compressed, to the extent that in 2007 the IPD All Property equivalent yield was below the five-year swap rate, and leverage increased, banks and borrowers explored mechanisms to reduce

¹ <http://www.fca.org.uk/consumers/financial-services-products/banking/interest-rate-hedging-products>.

² Short Paper 22, A Review of Interest Rate Hedging in Real Estate, published by the IPF Research Programme January 2015.

the hedge rate; many structures executed at this time contained exotic combinations of instruments and were for longer tenors, taking advantage of the inverted yield curve – both of these tactics resulted in unsuitable hedging being implemented for short-term gain.

Post financial crisis, the market has seen some major changes, as explained below.

Current hedging practice

• Shift from interest rate swaps to caps

As a result of their experience of ‘breakage’ costs following the global financial crisis, some participants have ceased to use interest rate swaps and have, instead, adopted interest rate caps. This allows them to retain some flexibility in their hedging strategy and to extinguish the risks of break costs. The growth of non-bank floating rate debt and the high credit spreads banks seek to charge have both played a role in this behavioural shift. Figure 1 shows the move towards caps, particularly since 2013.

An increasing interest rate environment would generally result in swaps performing better than caps. However, if borrowers can meet their interest coverage ratio (ICR) covenant, they can purchase cheap out-of-the-money caps as a form of disaster protection only.

• Change in the banks’ approach

The financial crisis and subsequent regulatory focus on derivatives has also changed the way banks sell derivatives. They have adopted a full ‘belt and braces’ approach, involving greater disclosure and stringent sales processes, particularly when providing instruments to unsophisticated or retail borrowers. This has led to some banks to withdraw their offer of providing derivatives to retail borrowers, thus precluding them from managing their interest rate risk in the manner best suited to their investment. Furthermore, in the current, very low interest rate, environment it might be argued this is precisely the time at which such retail borrowers need to be controlling interest rate risk but are now constrained in how they can achieve this.

Banks have also started to monitor and account for the various value adjustments in the pricing of instruments. Thus, the true cost of providing particular derivatives is priced more effectively into the instrument and reduces the incentive to provide longer-dated or more complex instruments. While banks have borne the costs of the change in pricing methodology on existing derivative positions, they have passed on these costs to borrowers on any new hedging implemented resulting in higher derivative costs for end users.

• Shortening hedging tenors

As shown in Figure 2, the appetite of both borrowers and their hedging counterparties to enter into long-dated hedges has reduced over

Figure 1: Hedging usage

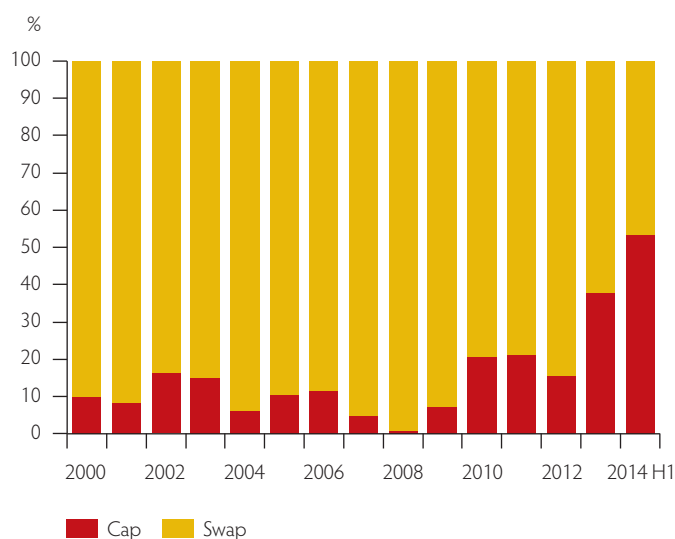
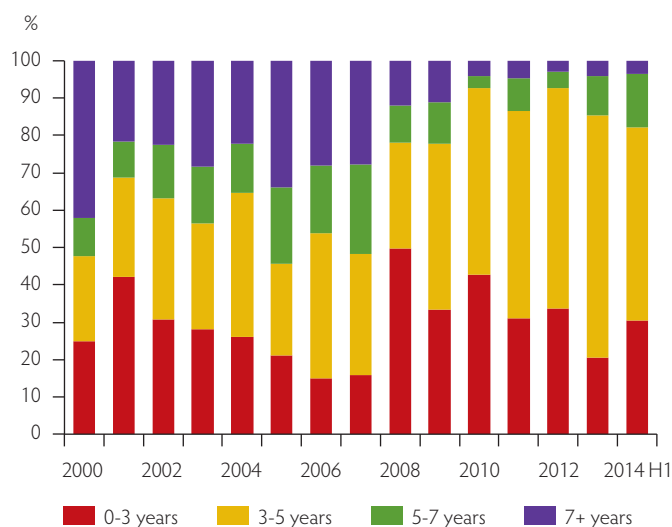


Figure 2: Duration of interest rate hedging



the course of the last seven years. Many borrowers were badly affected by long-dated hedges in 2007-08: when interest rates fell to unanticipated and unprecedented low levels, they were left with large negative liabilities in relation to the swap notional account.

The appetite of the banks to extend credit lines to borrowers for long-dated swaps has reduced as the capital implications for these instruments under Basel III are high. At the same time, banks are also more accurately pricing the credit and funding costs of long-dated hedges, making these products less attractive from a price perspective.

A third factor is the current interest rate environment. The UK has observed an upward sloping yield curve since late 2007, when the Bank of England started to cut base rate significantly, eventually bringing it down to 0.50% in March 2009. As a consequence, hedging longer tenors is less attractive to end users.

• Other changes in the market

The biggest changes in the market have occurred for the unsophisticated borrower base (classified as Retail under MiFID15), although there have also been wider changes in the market such as the introduction of Basel III and improvement in how the industry approaches the pricing of latent risk factors in derivative instruments.

The market has increased the level of disclosure given to borrowers; this is important but needs to be combined with borrowers taking a more considered approach to their interest rate hedging decisions. Increased education is improving the approach of many borrowers to interest rate hedging: It is now commonplace for a retail user of an interest rate hedging product to be tested on their understanding of future interest rate scenarios and the effect these will have on the value of their hedge instrument.

Some banks have withdrawn entirely from providing floating rate loans to unsophisticated borrowers and will only provide fixed rate loans, while other banks will only allow borrowers to trade vanilla interest rate swaps. Whilst restricting the sale of structured, and at times toxic, interest rate derivatives to retail borrowers is a positive trend, it is not an improvement in the market to completely restrict the ability of borrowers to sensibly manage their interest rate risk. There is a need to move forward to an environment where a range of suitable hedging instruments are available to retail borrowers, especially as many sophisticated borrowers are classified as retail due to the purchase of an asset through a single SPV triggering the retail classification.

Another change, post financial crisis, is the greater emphasis on the various pricing components for financial institutions providing derivatives to borrowers. With banks starting to make more appropriate reserves and charges on interest rate swaps, it is likely that inappropriate structures will become less attractive as the risks involved in providing these structures are priced correctly, rather than taken as a profit at inception.

One area that remains unchanged is the separation of bank lending and treasury teams. It would be good progress if banks' approach to borrower risk management was more co-ordinated as it may result in fewer inappropriate hedge instruments being executed between borrowers and their banks.

A good-practice framework

Many real estate borrowers and lenders are now cognisant of the potential mark-to-market liabilities that can arise through the use of interest rate hedging products. Often, these liabilities have been a function of inappropriate instruments, but the basic products themselves, if used appropriately, are extremely important risk management tools (though they may still give rise to large liabilities!).

• Type of hedge

Why is the borrower seeking to hedge its position? The majority of real estate interest rate hedging is undertaken as a cash flow hedge, where the purpose of the interest rate hedge is to ensure no adverse impact to cash flow from variations in interest rates. Lenders to real estate are similarly conscious of this and, hence, often include minimum hedge requirements as a condition of their loan offer.

A fair value interest rate hedge in real estate is less common. It may arise where the value of the property is closely related to interest rates (which could be the case for a long-dated lease to a highly-rated tenant). Here, the value of the asset will be linked to the discounted value of the lease payments (i.e. a function of interest rates). It may be prudent, therefore, to hedge the refinance risk associated with such an investment.

● What is being hedged?

The starting point is to look at the term of the debt facility and any amortisation over its life. Possible variations to this contracted debt profile can then be considered, such as: any influence from the investment strategy like a disposal, or partial disposal prior to maturity, rental uplifts, lease breaks, or a desire to hedge a portion of the interest rate element of the refinance risk for an asset that is a long-term hold.

The borrower should then evaluate its sensitivity to interest rates by modelling the projected income, the correlation between income and interest rates, and the required interest or debt service cover ratio. Making these calculations will give a sense of the ability of the company to take on interest rate risk.

Less objective, but still important, is the borrower's appetite for risk. A high net worth individual or property developer may be targeting very high returns and have a very large risk appetite. On the other hand, a REIT may have a very low interest rate risk appetite and may be more concerned with maintaining a consistent dividend and dividend cover ratio.

Facility agreements may contain specific covenants that dictate the parameters of a minimum hedging quantum, maximum hedge rate, minimum ICR or minimum floating Libor rate. All cash flow covenants need to be either factored into the structuring of the hedge to ensure compliance, or renegotiated with the lender to be more appropriate to the hedge requirements of the borrower.

● Choice of hedge instrument?

By modelling the derivatives to analyse the optimal mix between fixed and floating rate debt, the degree of uncertainty about the exact debt profile should be identified – allowing the borrower to incorporate some flexibility into its hedging strategy or to reduce the quantum hedged. For example, if a borrower is seeking to protect against potential, but uncertain, future borrowings, an interest rate swap on 100% of potential borrowings will not be appropriate, whereas a hedge with more flexibility, like an interest rate swaption, will be more suitable.

The interest rate mix also needs to be considered in terms of the wider portfolio and its evolution. For example, if a borrower has a large amount of fixed rate debt, say from a private placement or the institutional market, then an additional tranche from the banking market may be more appropriately left as floating or capped rate debt to ensure the hedging is balanced at a portfolio-level.

● Security position of hedge provider?

Interest rate hedging products, such as swaps, have credit risk while other interest rate hedging products like caps do not (once the premium of the option is paid). The borrower also needs to understand the credit requirement of the hedge instrument. A cap can be purchased from any market counterparty that has completed the requisite money laundering checks on the borrower (often referred to as 'know your customer' or KYC), whereas an interest rate swap will be limited to those counterparties that already have security over the assets of the borrower.

For any interest rate hedging product that has an element of credit risk, the hedge counterparty typically requires security from the underlying assets of the borrower. The credit quality of the borrower, can therefore be an important factor in the choice of interest rate hedging instrument.

There is also a distinction between a secured and unsecured position for the hedge provider. In a secured position, the hedging is closely linked to the financing decision, often explicitly through the ISDA³

³ International Swaps and Derivatives Association (ISDA)

agreement governing the hedging. So, while it is possible to novate or transfer interest rate hedging from one hedge counterparty to another, there are typically significant costs involved. There is also the risk that any outstanding mark-to-market liability may need to be settled in order to do so.

- **Other considerations**

Borrowers should consider whether interest rates have influence elsewhere. Is there any correlation with rental income or asset values? Such wider influences should be recognised in the evaluation and decision-making process.

Derivative product providers are not hedging advisors; borrowers should seek independent advice if they are not comfortable with determining an appropriate hedge for their business.

Note

The interest rate market is constantly changing. The optimal solution today may not be the optimal one next time; borrowers need to keep themselves informed of what the market is offering.

The size & structure of the UK property market: End-2014

PAUL MITCHELL

Paul Mitchell Real Estate Consultancy (PMRECON)

The IPF Research Programme report, 'The Size and Structure of the UK Property Market 2013: A Decade of Change', published last year, updated the IPF 2005 report, which looked at the size of the UK commercial property universe and within that, the make-up of the commercial property investment market.

This IPF research is now being updated annually and the year-end 2013 and 2014 figures are compared in the summary below.

Figure 1: **Total value of UK commercial property**

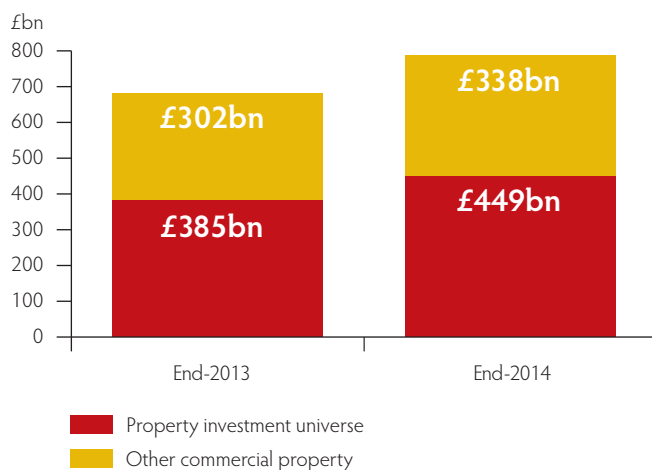


Figure 3: **UK commercial property investment universe by investor type**

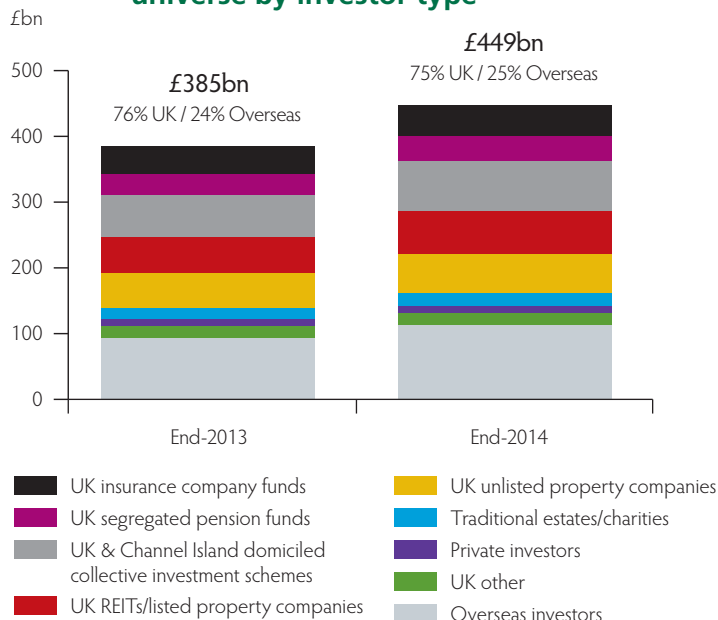
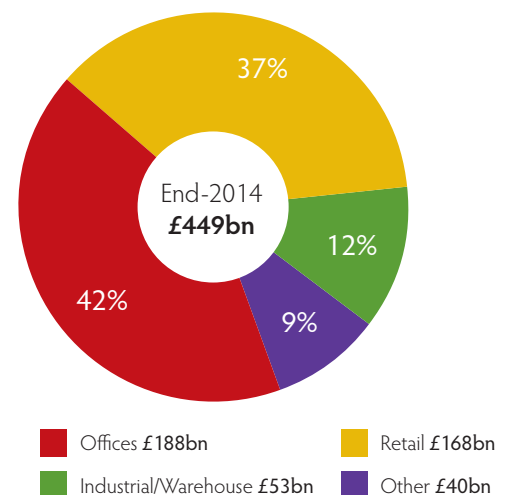
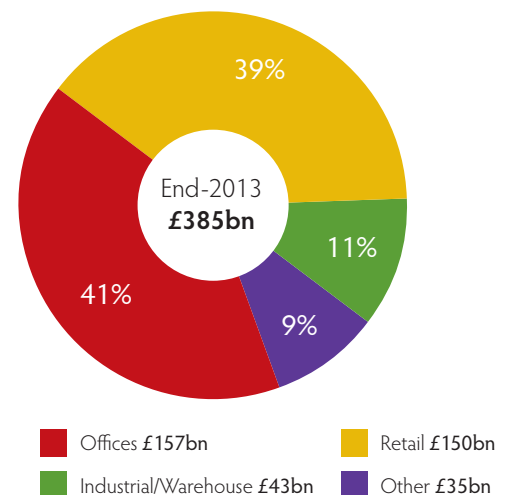


Figure 2: **UK commercial property investment universe by sector**



Sources for Figures 1, 2 & 3: PMRECON estimates, using data from company accounts, IPD, ONS, PFR and RCA/PD. Total value of commercial property is a PMRECON estimate using VOA, Scottish Government and IPD data.

What is fair value?

BEN BURSTON
JLL

ANDREW BURRELL
JLL

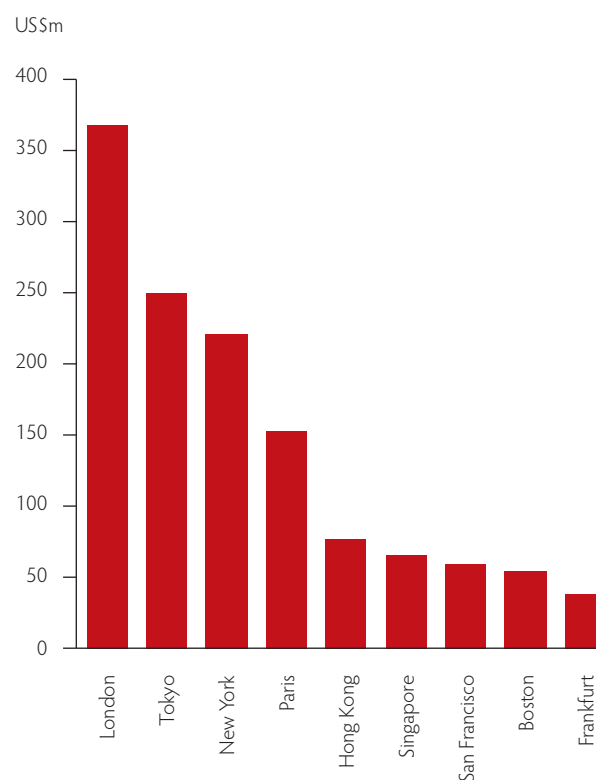
In the context of a global economic recovery and rising capital values in the UK and many markets globally, the IPF Research Programme commissioned research to examine the drivers for this rise in demand for real estate investments, its durability over time and the impact on market pricing and implications for fair value. The research report, 'What is Fair Value', was published as a 'Short Paper'¹, in April 2015 and the article below is a summary of the key findings.

Drivers of demand

Global investment volumes grew strongly in 2014, totalling US\$710bn, up 20% on 2013, to be 6% only below the previous peak of US\$758bn in 2007. UK investment volumes hit a new record in 2014, up to £65bn, surpassing the previous peak set in 2006. Demand has been especially prevalent in the major cities of the developed world, often referred to as 'gateways', owing to their importance as centres of international business. This is evidenced by rising share of global investment activity accounted for by the top 10 cities each year, which has risen from around 20% to 30% over the past 10 years – Figure 1 shows the ranking of the most heavily invested global cities between 2004 and 2014.

Much of this focus on the top cities has come from new types of investor, notably sovereign wealth funds and insurance companies from the Asia Pacific region, that have taken a rising share of global investment activity. Their emergence can be traced to the rise of savings in emerging market economies since the early 2000s – see Figure 2. Emerging market savings, as a share of GDP, increased very sharply in the period 2002-08, from 20%-25% to around 35% and have remained at a high level ever since. China alone accounts for more than half of this rise, with oil exporting countries also responsible for a significant part of the increase.

Figure 1: **Top cities for global investment – total turnover 2004-14**



Source: JLL

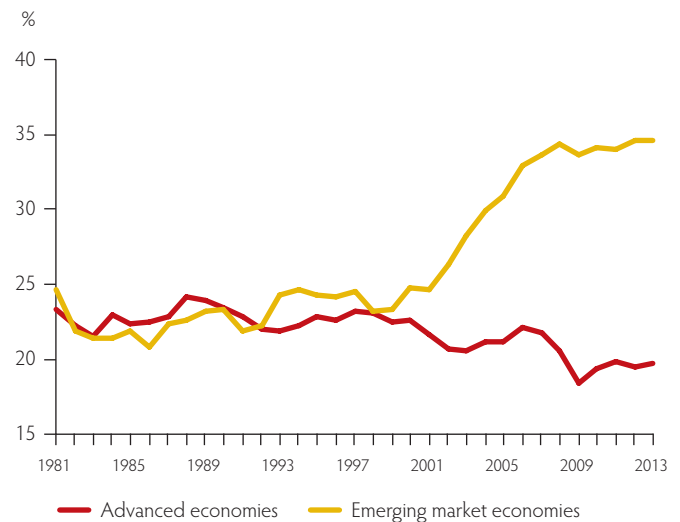
¹ What is Fair Value? Short Paper 24, published by the IPF Research programme in April 2015.

Rising savings have been reflected in the rise of sovereign wealth funds, the growth of the insurance sector in emerging markets and growing pension fund assets under management. They have also changed the balance between global savings and investment intentions, and been a key driver behind the lowering of global real interest rates over the past 15 years.

In terms of the durability of this trend, all current signs are that these funds will become a permanent feature of the property investment landscape, particularly in major cities. For many of them, real estate remains a small share of their overall investment and there is substantial scope for further growth, from both rising allocations to real estate and, also, through rising assets under management overall.

While a cyclical market correction could be expected to dampen demand for a period, for the effect to be unwound to a significant degree in the long-term, the underlying drivers would need to reverse and this appears unlikely. While the recent fall in the oil price may have impacted on some producers, recent analysis from the IMF finds that there is no reason to believe emerging market savings are going to significantly decrease, nor that the related portfolio shift towards safe assets, notably government bonds at the expense of equities will abate. As such, while global real interest rates should rise slightly as the global economic recovery strengthens, they will remain at lower levels than has been seen historically.

Figure 2: **Nominal savings as a proportion of GDP**



Source: IMF

Impact on market pricing

Prime office yields in New York are currently at an all-time low of 3.5%, as are yields in the City of London, while Paris, Tokyo and London West End are only slightly higher than previous yield floors. Is this change in pricing attributable solely to the impact of the new investors described above or are yields reflecting a more general cyclical upswing applicable across all markets, whether core or non-core, prime or secondary?

This issue was examined by assessing both the relativity between gateway cities and smaller cities in the same country and the relativity between different lot sizes. If new investors have had a meaningful impact on pricing, it might be expected that a wider yield gap would emerge between the major gateways and smaller cities in the same country. Likewise, a smaller gap might be expected between achieved yields on larger and smaller lot sizes.

Both of these comparisons failed to show a clear-cut impact on pricing from the rise of new investors. During 2011-12, yields diverged between London and other UK markets, but this gap closed significantly over the period 2013-14. Although the yield for larger lot sizes in the City of London is at its lowest ever level currently, it was not possible to prove a narrowing of the gap between larger and smaller buildings.

Fair value

The implications for fair value of these trends were assessed using two different methodologies; Robert Shiller's Cyclically Adjusted Price Earnings Ratio (CAPE) and a forward-looking relative value model. The former compares property pricing relative to historic experience, without reference to the wider economic and financial context, and the latter looks ahead at forecast returns relative to fixed income alternatives, as represented by government bonds.

The CAPE analysis, as shown in Figure 3, found that UK property was marginally under-valued overall, with a CAPE of 17.3 at the end of 2014 compared to a historic average of 17.8. Given rising capital

values, the ratio is trending upwards following a period of significant undervaluation from 2009 to 2013. CAPE analysis of the UK office market suggests a clear contrast between the position of Central London, where there is evidence of over-valuation, and the rest of the UK, which remains under-valued.

Analysis using a relative value model found under-valuation for both the overall UK market (see Figure 4) and City of London offices. Depending on the chosen time horizon for investment, UK All Property was found to be between 4% and 20% under-valued. For instance, for an investor with a 10-year time horizon, the fair value equivalent yield was estimated to be 5.9%, compared to the actual 6.4% at end 2014, implying under-valuation in the order of 8%. The results for prime City of London offices also show under-valuation of between 8% and 13%, despite the low prevailing yield of 4.25%. This is partly driven by a strong rental growth outlook, and also reflects the impact of very low interest rates which have lowered the required return on property investment.

Figure 3: **Comparison of IPD All Property CAPE measures**

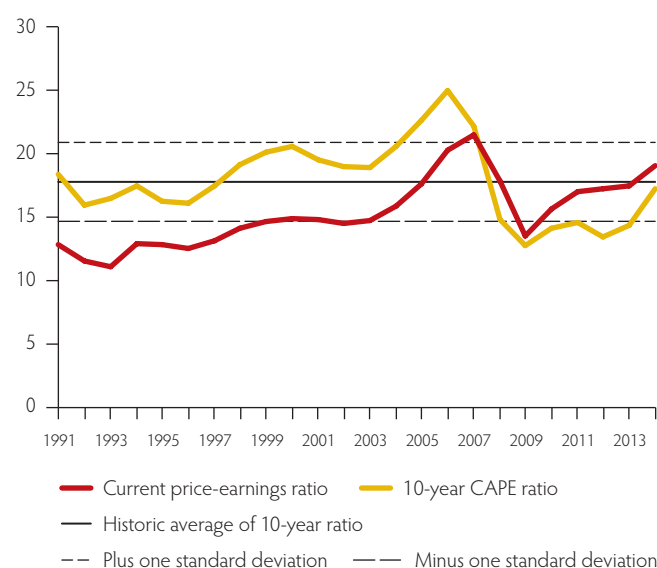


Figure 4: **Assessing fair value for UK IPD All Property¹**

	5-year %	10-year %	30-year %
Estimated required return			
Gilt yield	1.2	1.8	2.5
Transaction costs	1.9	1.2	0.7
Depreciation	1.0	1.0	1.0
Risk/liquidity	3.0	2.5	1.5
Required total return	7.1	6.5	5.7
Forecast total return ²	8	7.9	7.8
Equivalent yield	6.4	6.4	6.4
Yield equating required and forecast return	6.2	5.9	5.1
Estimated over/under-pricing (negative indicated under-valued)	-3.6	-8.4	-19.9
Alternative: adjustment to bond yield	+90bps	+140bps	+210bps

Notes ¹ End December 2014 figures ²JLL

The results show that the under-valuation is greater for investors with longer intended hold periods, suggesting that new types of investors may be perceiving value differently compared to those with a five to 10-year time horizon. Under a limiting case, it is shown that, for a safe-haven investor intending to hold prime property in perpetuity, values could feasibly rise much further while still maintaining relative value. Given that long-term interest rates in many countries are at or around the lowest levels ever, fair value for these investors could be achieved with prime office yields ranging from 1.8% to 2.4% in London, Paris, New York and Tokyo, pointing to a substantial premium above investors with a more conventional approach.

Notwithstanding that a substantial premium can be justified, the tendency for real estate market pricing signals to be transmitted across markets means that gateway cities are unlikely to see much lower yields in isolation of their broader domestic markets, but this will be worth continued monitoring.

Recent yield compression can be viewed, therefore, as a rational and, in some cases, overdue response to an improving demand in a lower interest rate environment. However, the market would move to an over-valued position if it experienced greater than 25 to 50bps of further yield movement.

An alternate way of interpreting the analysis presented is that the market anticipates a meaningful uplift in base and long-term interest rates, with current pricing reflecting this balance. The analysis presented suggests that a rise in bond yields of 100 to 200bps could be accommodated before pushing the market to an over-valued position.

“... new types of investors may be perceiving value differently compared to those with a five to 10-year time horizon.”

Questions for further research

This paper touches on a number of issues that warrant further investigation, including:

- To what extent do target returns differ between investor types?
- Are target returns reducing in response to lower real interest rates?
- What is the planned hold period for different investor types?
- What is the desired future allocation to property for different types of investor?
- How are pricing signals transmitted between markets and how strong is yield arbitrage between markets within countries and across borders?
- Is there evidence of changes in lot size premia in international markets?

The liquidity premium for illiquid assets

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This is a summary of the key findings from the research report, **Liquidity Pricing of Illiquid Assets**, published by the IPF Research Programme in February 2015. The research sought to estimate the liquidity premium of illiquid assets (e.g. direct investment in real estate) looking at three main sources – time on market, liquidation bias and market illiquidity – using three main empirical estimation models and several liquidity measures suggested in an extensive literature review. To the researchers' knowledge, this represents the first attempt to use different measures and models simultaneously to gather empirical evidence about the liquidity premium.

The models used

Three models were used in the analysis, as listed below:

- **Time on Market (TOM)** – The 2014 IPF report on time to transact¹ incorporated estimates of TOM for different types of properties and during different periods. The model uses this information to estimate what additional risk investors expect if they cannot transact their properties instantaneously, as in financial markets such as for equities and gilts.
- **Liquidation bias** – This reflects the inability of investors to sell their assets at observed market prices immediately, as happens in financial markets. The evidence of this bias is represented by the low turnover and small portion of properties sold successfully, with many other properties sitting on the books of funds and either being offered to the market but not transacted (because a counterparty is not found or a price is not agreed) or not being offered to the market because the seller does not believe that a 'reasonable' price would be achieved.

This bias is important for transaction-based indices because the observed prices are only reflecting the information on successful transactions (which may have different characteristics from the ones of unsuccessful transactions). It is also relevant for valuation-based indices because appraisals used to construct such indices derive from comparables of transacted properties only. Finally, the liquidation bias relates to the evidence that transacted properties may have been up for sale for a longer time than the measured TOM.

- **Market liquidity** – This reflects the cyclical nature of the real estate market, where the ability to transact a given asset will vary over time due to changing market conditions.

The impact of TOM was reported in the form of standard deviations of returns, while both the liquidation bias and market liquidity were quantified as premia.

¹ Time to Transact: Measurement and Drivers, published by the IPF Research Programme in September 2014.

Research findings

TOM, coupled with non-random returns, can generate a perceived ex-ante risk that is 30.0% to 40.0% higher than the one observed in ex-post returns.

Using the argument of a possible liquidation bias – because investors cannot necessarily sell assets as and when they want – the impact was found to be even more significant than the TOM effect, with the impact on risk – mainly driven by the correction for serial correlation – almost double the one measured by ex-post measures and a liquidation premium varying between 2.0% and 3.0%.

Finally, the estimation of risk premia linked to market liquidity consistently showed the significance of this risk factor. Over time, premia are on average around 3.0%-3.5% and they range between 1.5% during rising markets (i.e. when it is easy to find a counterparty and transactions can happen very quickly) and 10.0% when a liquidity dry-out happens (e.g. during the most recent economic crisis). These estimates are also in line with the ones suggested for bonds and equities², which range between 0.1% (for very low risk bonds) and 3.5% to 5.5% (for either domestic or international equities).

Overall, considering both the liquidation bias approach and the market liquidity estimation, conclusive evidence is found that the ex-ante illiquidity premium is around 3.0% on average and it varies over time ranging from 1.5%-2.0% to 10.0%. At the same time, investors normally use a rough estimate of 2.0%-4.0% for the overall risk premium (including several factors such as obsolescence, tenant default and illiquidity) to determine the required rate of return for real estate assets.

Average illiquidity premium

3.0%

Illiquidity premium range

1.5%-10.0%

Clearly the ex-ante figure seems to overestimate the liquidity premium according to such view, highlighting once more the presence of a risk premium puzzle. If, on one hand, investors may argue that ex-post returns do not justify a 3.0% liquidity premium, on the other hand, the cost associated with illiquidity (i.e. inability to sell or to sell within a short period of time) is not necessarily recorded in IPD return data. In fact, if a property is not sold due to the inability to find counterparty, this information remains hidden because the transaction price (and, hence, discount due to liquidity) is not observed.

To conclude, the estimated liquidity premium does not necessarily imply a radical shift of required returns and consequent repricing of the asset class. As an illustrative example, assume that the long-run risk – free rate is around 3.0%-3.5%, obsolescence is estimated at 1.5% and the illiquidity premium is around 3.0%. Adopting the practitioner's view, a newly-constructed building with a good quality tenant and located in London should require an ex-ante return of around 7.0%-7.5%, which is in line with the ex-ante return (including potential future growth) required by investors for these types of properties.

² Liquidity premium: literature review of theoretical and empirical evidence. Barrie & Hibbert research report, published 2009.

The implications of BREXIT:

A discussion

These are the key points that were generated by a roundtable discussion between 20 senior members of the industry that took place on 3 March under the auspices of the IPF Research Programme. While some issues found consensus, there were varying views on the effect an UK exit would have. Overwhelmingly though, participants were united in the view that many in the property industry were, as yet, unprepared for the various scenarios that could result from the political uncertainty that may emerge. “The danger is the industry leaves it to the last minute to consider what the implications might be – investment decisions need to be taken sooner than that.”

The full discussion is available in Short Paper 25¹.

Participants were united in their view that Euroscepticism is not being shaped by rational economic analysis. Rather, it is being driven by a perception among voters that the free movement of people, guaranteed to EU citizens as a fundamental right, negatively impacts British jobs. These perceptions are mainly held by those whose incomes have been squeezed by the rising forces of globalisation and technology. “UKIP, like the Tea Party in the US, represents those who’ve been disadvantaged by these influences,” one said.

Moreover, the rise of nationalism across the region and worldwide was of concern, for example, the Alternative for Germany party, argues that German interests have been subordinated to those of Europe and the gains by the French National Front in the Spring 2015 local and European elections are well-documented.

“... the rise of nationalism across Europe and worldwide... is concerning.”

Prospects of conflict on the eastern borders of Europe, with Putin’s recent actions in Ukraine, are an added concern and some in the room suggested that the possibility of armed conflict in the region was being “factored into investment decisions”. In some cases, that meant they would be allocating more capital to the UK.

Impact on the UK economy

Estimating the costs and benefits of an exit are highly sensitive to assumptions about the terms upon which the UK would depart. Likewise, although leaving the EU would free up the burdens of contributing to the EU budget and obligations to EU regulation, the necessity for a free trade agreement and for the UK to abide by EU product regulation means any cost savings would be less than the EU-exit optimists estimate.

¹ Implications of a UK Withdrawal from the EU: Round table discussion, published by the IPF Research Programme in April 2015.

“Even if we were to leave the EU, it will not be a black and white situation. There will be a two-year period of negotiation, at a minimum, before we can legally leave. During that time, the terms of withdrawal and the subsequent relationship will be determined, but all of that represents a huge period of uncertainty. So, while we are talking about withdrawal, to even talk about what withdrawal means is itself a grey area. That will lead to a prolonged period of uncertainty for those wanting to make decisions.”

A ‘yes’ vote could result in a free trade model, in which the UK had access to the free market. It could also result in further exits by other European members – perhaps Ireland, or a European trading bloc that included the UK, Norway and Switzerland.

Concerns about restricting immigration

There was consensus that EU immigrants are a “boon not a burden”, being net contributors to the UK’s public finances, and therefore restricting their numbers, would result in a less skilled workforce and slower population growth. This in turn would reduce GDP per capita and total GDP. “The government deficit is still

5% of GDP. If the economy shrinks it would make it harder to service that debt,” one commented.

“... EU immigrants are a boon not a burden...”

Impact on the occupational markets

The group thought the impact would not be uniform across regions or property sectors. Those most affected were likely to be:

A. LONDON OFFICE MARKET

Bank and finance leasing activity is undergoing a resurgence and leasing activity in the City of London has reached a 15-year high. Some of this demand is from the finance sector (e.g. banks, fund managers, insurance etc), but a significant amount is also from TMT companies.

London is the EU’s largest wholesale financial centre and the City and Docklands form the centre of the eurozone’s financial system. As one person put it, “the story we have been telling is that there is a deep pool of skilled labour and that is why companies come to London. Everyone buys into that cluster story. The key assumption is that the underlying forces of agglomeration remain powerful.”

“However, we shouldn’t underestimate how footloose international companies are and, if London loses its attractions as a business hub, there could be a major exodus. Wholesale finance could be moved to the EU”, another remarked. “If we weren’t in the EU, we would not have direct influence on financial regulation. So we might see French and German banks transfer trade in euros back to their home markets. EU regulation, meanwhile, would take a more marketsceptic view if the UK was not there arguing the Anglo-Saxon view of laissez-faire regulation.” US-based banks, including Bank of America, Citigroup and Morgan Stanley, are reportedly considering Ireland as an alternative location for business currently conducted in London.

It is likely that the City of London and Docklands, in particular, would suffer from a decline in office leasing activity. The knock-on office job losses would also have a negative impact on London retail and industrial property, as well as the residential market.

“... likely that the City of London and Docklands would suffer from a decline in office leasing activity.”

London has enough of the real fundamentals – size, English language, history, a good place to live and work – to re-invent itself outside the EU but the bigger long-term risk is of a slow, imperceptible decline in London's status, meaning the balance of power gradually shifts to New York, or Shanghai over a 20-year period.

B. INDUSTRIAL PROPERTY

Manufacturing occupiers have been very active in the UK market in recent months, boosting the industrial markets particularly in the North East and West Midlands. DTZ reported that take-up in the North East reached 2.3m sq ft in 2014², the strongest year on record, with 1.4m sq ft of grade A deals completed, driven largely by manufacturing companies. One such is Jaguar Land Rover, whose chief financial officer recently said any split from the EU would damage trade for UK business and cautioned against 'barriers' that would arise if an exit went ahead.

C. ALTERNATIVE PROPERTY SECTORS

According to JLL³ the most dramatic change in sector allocations in recent years has been in alternative asset classes. Student housing, healthcare and hotels accounted for 19% of transactions in 2014, up from just 3% in 2009. The acceptance of alternative asset classes as more mainstream investments could be impaired by an UK exit, argued participants. Not least, an anti-immigration stance, foreseeable in a post-exit scenario, would impact the university sector and, hence, demand for student housing.

The residential market would also suffer in this new climate, given that a continuation of current rates of immigration seems to be implicit in house prices today. "That is the only way you can rationalise where house prices are – low supply combined with sustained immigration. This is one area where we can see a clear link between an exit from the EU and the property market," said one.

Impact on overseas investment

JLL statistics show direct real estate investment in the UK hit a record £65bn in 2014, 3% higher than the pre-recession peak in 2006 and 16% higher than 2013's total of £55bn³. The UK is one of the most liquid commercial property markets in the world, accounting for 18% of all global transactions and overseas investors accounted for just under half of transaction volumes.

A major impact on property markets would be a 'long period' of stasis that would have a measureable impact on values. This would be the case both in the event of an exit, but also if a referendum were scheduled. "I think that we're at peak liquidity, not necessarily peak valuations. Money that is coming into the UK will slow up immediately but not necessarily exit. An international investor looking at the EU will stand back and wait", was one comment.

Those that would remain committed are UK funds obliged to place money into the UK market to meet pension liabilities. Global investors with long-term investment horizons are also more likely to be influenced in their decision-making by trends in urbanisation, population shifts, etc, than by the relatively near-term effects of any exit.

It is anticipated that investment of opportunistic capital could increase during a period of uncertainty leading up to the referendum. "A potential exit from the EU would have dramatic implications at the macro level, but there's a wide opportunity at the micro level," said one. "There will be a host of opportunistic investors that will jump on assets that others are running scared from, thinking they do not know what to do with industrial sheds and office buildings with value-added plans."

Participants did not believe there would be any great change in the appetite of sovereign wealth funds for UK property either. As one noted, the volume of inward investment from these investors into London last year was greater than the amount invested in Tokyo, Paris and New York combined.

² DTZ Property Times: UK Industrial H2 2014, 16 February 2015.

³ UK real estate investment volumes hit record £65bn in 2014, JLL 09 February, 2015.

“Investors from Qatar and Kuwait will not be put off by an exit from the EU – they are in for the long term,” said a second.

“Everyone knows about London’s attractions. Even if the UK leaves the EU – and it is a big ‘if’ – the market factors will largely remain in place,” added another.

However, a number of participants expressed concern about the impact of tighter immigration controls. These could make the UK appear more closed to the outside world and alter the fundamentals that sell the UK internationally.

“... tighter immigration controls... could make the UK appear more closed to the outside world...”

Conclusions

It is difficult to know whether leaving the EU would do permanent long-term damage to the UK economy. Much would depend on the terms of any new trade agreements, inward foreign investment, restrictions on migration, etc. The UK’s net contribution to the EU budget is relatively small at less than 1 % of GDP.

The period between now and a referendum is likely to be marked by a great deal of uncertainty. That period would be extended if the UK voted to leave the EU, as it would take some time to negotiate new arrangements with the EU and other countries. During this time, occupiers would probably hesitate to sign new leases. It seems likely that those parts of the occupational market having the greatest exposure to the global economy would be most affected; the London office market, the industrial market in towns and cities where export-oriented manufacturers are a major part of the local economy and student accommodation.

Even if the UK were to leave the EU, the outlook for property remains relatively benign. As one participant summed it up, “The UK wouldn’t be very different outside the EU. There are so many reasons why you buy real estate – this is a very small part of it. And if the market does slowdown, then we have proven in the last few years that you can do well with real estate in a low growth environment. It may be that investors can’t achieve 20% total returns, but they can receive a decent income and property will do better than bonds over the next decade. These are much bigger considerations than if we leave the EU or not.”

“Even if the UK were to leave the EU, the outlook for property remains relatively benign.”

What constitutes real estate for investment purposes?

NICK MANSLEY

COLIN LIZIERI

University of Cambridge Real Estate Research Centre

Over the last 10 years, UK allocations to non-traditional real estate (other than offices, retail or industrial) have increased from 4% to 11% of the IPD universe. The range of investment options has increased and some investors now group real estate alongside infrastructure and other tangible assets into a generic 'real assets' category and these form part of the real estate (or, increasingly, real asset) allocation. But are there 'alternative' assets, which have such different characteristics because of their type alone, that observers would not consider them to be real estate?

This is a summary of the report commissioned by the Investment Property Forum under its Short Paper Series to explore what constitutes property for investment purposes. The research brief was to consider:

- Whether there are generic characteristics to be applied;
- If there are common legal structures (both ownership and occupation) and/or income, liquidity and risk profiles; and
- Issues for further research.

The findings reported are based on a literature review and consideration of some of the data available on non-traditional real estate in the context of the wider real estate market, as well as a series of structured interviews with investors, fund managers and investment consultants.

Availability of data

The literature review found that lack of reliable data on the performance of non-core real assets is a problem encountered by many. The researchers themselves could find no reliable data on UK infrastructure investment performance but looked at IPD data on farmland, forestry/timberland, residential and hotels and found that all had outperformed the All Property average, equities and gilts over the 10 years to end-2012 – see Figure 1. This, though, is too short a period to conclude that alternative assets offer superior risk-adjusted returns

Longer run data series are available in the US and Figure 2 shows the correlations for various real estate sectors over the period 1998-2013. The farmland and timberland indices appear to have relatively low correlations with core sectors and their performance over time has been 'non-conforming', e.g. correlations fell during the global financial crisis.

Figure 1: **UK 10-year investment performance to December 2012**

Asset type	Annualised total returns %	Standard deviation %
Equities	8.0	20
Gilts	6.6	6
Retail	6.3	13
Office	6.1	13
Industrial	5.8	12
All Property	6.3	13
Farmland/rural	13.2	10
Forestry	16.3	10
Residential market lets	8.5	9
Hotels	8.5	9

Source: IPD

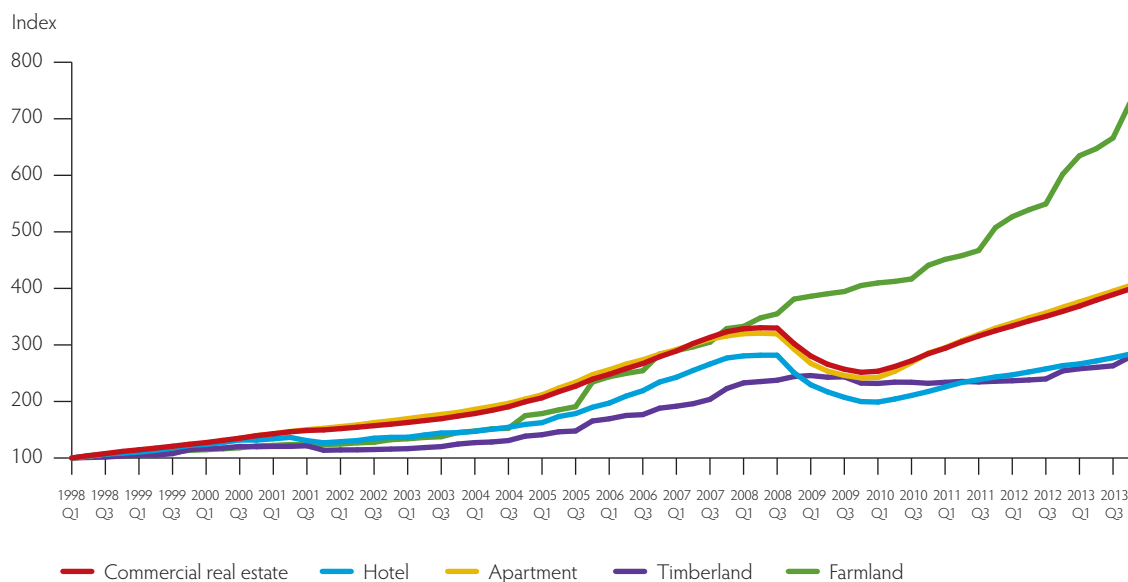
Figure 2: **US real estate performance 1998-2013 – correlations**

	NPI ¹	Retail	Office	Industrial	Hotel	Apartment	Timberland	Farmland
NPI	1.00							
Retail	0.89	1.00						
Office	0.97	0.83	1.00					
Industrial	0.98	0.83	0.99	1.00				
Hotel	0.91	0.78	0.88	0.90	1.00			
Apartment	0.97	0.85	0.93	0.95	0.86	1.00		
Timberland	0.31	0.34	0.27	0.28	0.42	0.21	1.00	
Farmland	0.19	0.31	0.19	0.14	0.20	0.15	0.70	1.00

Source: National Council of Real Estate Investment Fiduciaries (NCREIF)

Note: ¹ NCREIF equivalent to IPD All Property

Figure 3 shows the total returns from commercial real estate and various alternative sectors over the same time period. Hotels and apartments have behaved more like core real estate over time as they have become an established part of investment portfolios.

Figure 3: **Performance of US commercial real estate and alternative sectors**

Source: National Council of Real Estate Investment Fiduciaries (NCREIF)

Distinction between real estate investment and real assets

To distinguish between what constitutes a real estate investment and what is a real asset, the research used the following criteria:

- Asset allocation – what is the appropriate split of assets and definition of real estate that informs asset allocation and implementation decisions?;

- The type of asset – its use and how that may influence its risk and return profile;
- The type of income – the degree of contractual certainty of income and its exposure to the operational/business risk;
- The type of structure/ownership – the boundary between a real asset and a financial asset; and
- Institutional factors – management structure/skills required to manage investments.

The key findings from the interviews conducted were:

ASSET ALLOCATION

There has been a significant change in the way in which consultants and investors think about property over the last five to ten years. Real estate is thought less about as an asset class and more about the role it is playing in portfolios and how it is meeting objectives. Increasingly, they consider the role individual real estate assets play within the overall mixed asset portfolio, and the extent to which they meet investment objectives, rather than simply treating real estate as a distinct asset class. This has supported a greater role for non-traditional assets.

The downward pressure on fixed income yields has also been a stimulus to investment in non-traditional sectors. This has contributed to a growth in investment into secure income real estate and similar investments as alternatives to fixed income/index-linked gilts. Investment in non-traditional real estate has grown and is expected to grow sharply from current levels, given its potential scale and the shifting landscape for real estate investment.

TYPE OF ASSET

There are no definitive delineations between real estate and other real assets, whilst interpretations of what fits within real estate vary by consultant and manager. However, infrastructure, timberland and farmland are to some extent distinguished from other land and real estate-related real assets and are seen as more distinct from commercial real estate than housing, healthcare, student accommodation and other non-traditional real estate.

TYPE OF INCOME AND STRUCTURE/OWNERSHIP

The common factors that differentiate property from other asset classes are mainly around the ownership structure – e.g. ownership or rights over the ownership of land and property to access the income flow arising from it – and less around how income growth is driven. Operational risk is not a major concern of consultants/managers, provided the investment is in buildings not businesses, and even a small element of the latter seems to be acceptable for many investors.

Despite the introduction of REITs and recognition that the real estate is the long-term driver of returns for REITs, there continues to be a reluctance to use REITs in an integrated fashion with private real estate.

Accordingly, the structure of investment continues to be important to the definition of what is real estate.

INSTITUTIONAL ISSUES

The consensus was that non-traditional sectors may require specialist skills but this is not really a distinguishing feature that separates them from more traditional areas of real estate. Similarly, it was felt that a degree of operational and business due diligence skills may be needed for many areas of real estate investment.

However, there was a view that a full understanding of the risks of non-core real estate was challenging for most property fund managers. In addition, the differentiation of the skills needed for bidding for infrastructure projects and their management was seen as helping differentiate infrastructure from real estate.

Issues for future research

Those identified include:

- The alignment between asset allocation and implementation in real estate and infrastructure;
- Operational risk – how should this be priced?;
- Infrastructure – understanding the risks and returns and the impact of different investment vehicles on the investment characteristics of the underlying assets;
- Residential – analysis of the drivers of returns and performance; and
- Sensitivity of returns – are alternative real asset factors sensitive to the same factors as conventional real estate sectors and would there be a convergence of returns over time between the two.



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Opinion

UK private rental sector – multi-year growth

SAVVAS SAVOURI
Toscafund Asset Management

Some believe an ideal housing market is one where owner-occupation prevails, even if we are encumbered by mortgage debt. Others take the view that only publically-rented housing can provide 'fair' accommodation for all. Those expressing these two seemingly polarised views do share some common ground; tending to believe that any commercial rental sector should represent at best a modest tenure type, a sort of short-term holding sector until households can owner-occupy or be provided with a home by the public sector.

In what follows, I want to challenge this view and show that private rental is the tenure type most suited to the level of household mobility essential for a modern economy to adapt to changing circumstances and also the way to limit socio-economic polarisation.

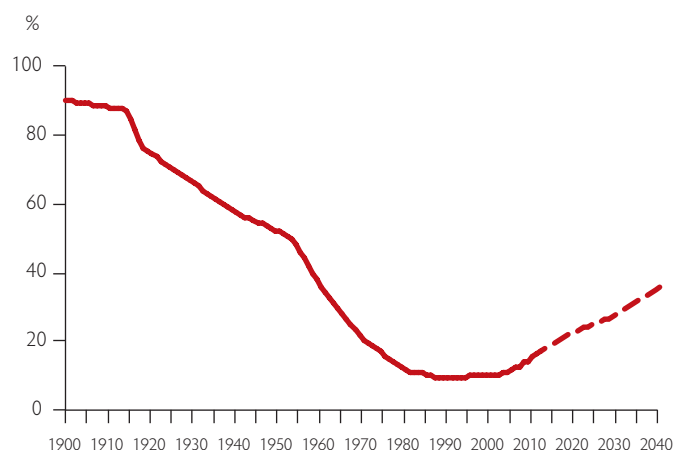
Background

The UK's private rental sector went from a share of 89% of all homes at the outbreak of WW1 to barely 9% in 1989. Although the sector has recently enjoyed a renaissance, it still accounts for 'only' 18% of housing, much lower than in residential markets across the developed world, and half the rate I believe it should be, and inevitably will return to – see Figure 1, which shows the share of private renting in England since 1900.

The erosion of the private rental sector over the past 100 years is due to a combination of war damage/dislocation, slum clearance (starting after WW1), rent controls (which were introduced for the first time in 1915 to avoid wartime 'profiteering'), considerable state-funded home building and improved access to mortgages. The building of 28 New Towns after WW2 contributed considerably to publically-funded housing, such that by 1951 subsidised local authority accommodation had grown to a share of 18%, having been 7% in 1931. At the same time, suburbs saw major building of homes for its expanding middle class, with future Prime Minister Anthony Eden expressing as early as 1946 an ambition to make Britain "a property-owning democracy".

As both owner-occupancy and public rental expanded, the private rental sector was squeezed. From the mid 1980s, the post-war baby boom generation led to a surge in household formation, a bout of significant home building and mortgage market deregulation and expansion. For its part, the 'Right-to-

Figure 1: Long-term share of private renting



Source: DCLG, ONS – England only

Buy' scheme – effective from 1980 – saw close on two million properties reassigned from being publically let to owner-occupied. Since the funds raised from such sales were not allowed to finance the building of replacement rental homes, unless councils had eliminated their debt, the result was a dramatic decline in the share of rental housing and commensurate increase in owner occupancy. By 1989, two-thirds of the UK's homes were owner-occupied, having been less than one-third in 1953. This increase did not simply coincide with the country's widening gap in regional wealth but, I would argue, contributed significantly to it.

Growth in the private rental sector

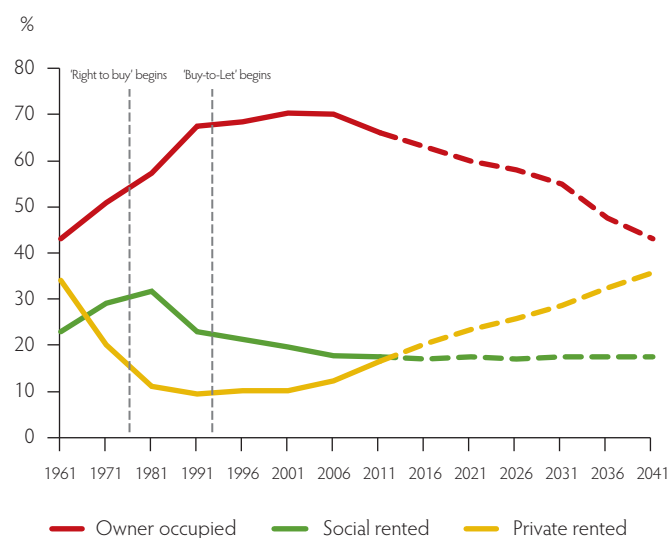
As already noted, recent years have seen something of a renaissance in the UK's private rental sector. I think that there is further considerable growth to come (see Figure 2 for projections covering England & Wales), particularly in major cities and most notably in London (see Figures 3).

Before I expand on how this growth will come about, let me make clear that the rise in the UK's – most notably England's – private rental sector is not predicated on any particular political backdrop. Instead it is based on our residential market having to adapt to socio-economic practicalities. There is the practicality of meeting the housing needs of an increasingly peripatetic and professional labour force. We have a growing number of young adults who will first enter the housing market as private tenants, moving then to being landlords to others, before becoming owner-occupiers – a sequence created by the legacy of student loans, restricted access to the mortgage market and regional differences in home prices and rental yields.

The nature of housing tenure has, of course, always varied according to where UK households happen to be along their 'life-cycles' – renting is far more likely as young adults, with owning more common when older. This cross section variation accepted, clear evidence exists that the nature of tenure within age groups has itself changed over recent years. Whilst it is no surprise that the majority of 16-24 year olds rent privately, given many are in higher education, more surprising is that this tenure type is now the most common amongst young adults (aged 25-34).

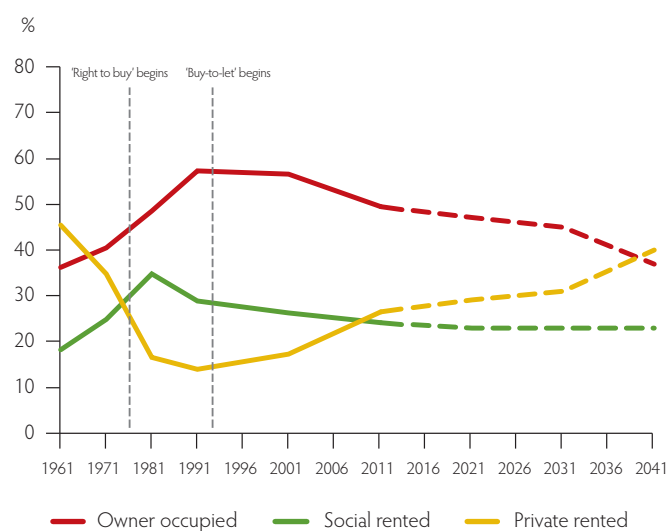
In addition, the UK has recorded significant net inward migration, particularly since the enlargement of the EU from 2004. This, too, has had an impact on tenure-mix within age-groups. Not only is the age profile of new arrivals much younger than the UK average of circa 40 but the tenure habits of migrants are quite different – new arrivals are more likely in the first instance to privately rent and less likely to owner-occupy or be housed in public rental properties than their age peer group across the indigenous population.

Figure 2: **Housing tenure, past and future**



Source: ONS – England & Wales

Figure 3: **London housing tenure, past and future**



Source: ONS, based on Census information

Looking ahead, socio-economic and demographic changes look certain to ensure the UK's tenure mix, shifts ever more towards private rental across all age group cohorts, with an increase in not simply the absolute number but the proportion of those who spend their entire lives as private tenants. My view is that the slower the adjustment towards a larger absolute and relative private rental sector, the more stubbornly high growth in residential prices and rents will remain, and so the more pressing the adjustment will need to be.

Britain's new landlords

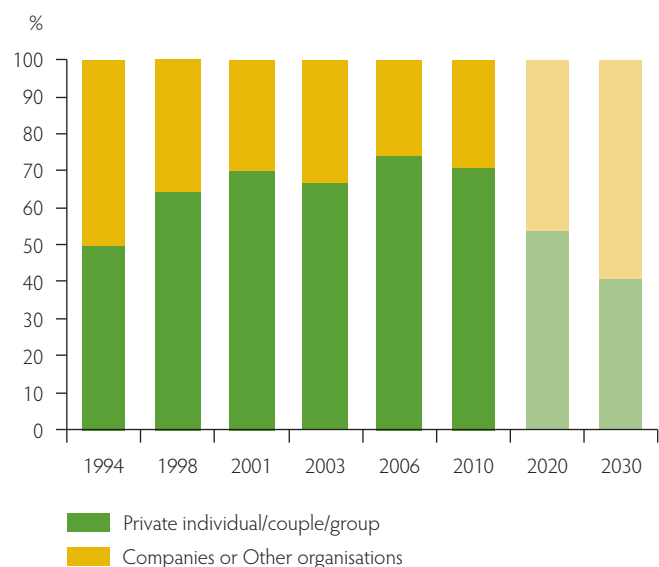
The UK's private rental market remains a cottage industry. In 1994, 50% of England's residential landlords were private individuals; by 2010 – the most recent date for which reliable figures are available – the proportion was 71%, as shown in Figure 4. In addition, the scale of landlords' holdings has declined: in 1994, 40% of landlords owned more than 25 properties but by 2010, this figure had fallen to 21% (see Figure 5). Indeed, in 2010, 78% of all landlords owned only a single dwelling, with 8% stating they were full-time landlords.

I am in no doubt that the UK's, and in particular England's, private rental sector is on the cusp of marked change. As well as continuing to see an increase in the number of small-scale landlords, the sector will become increasingly 'institutionalised'. In conjunction with this, there will be large investment firms developing entirely new towns. I also expect overseas investors to deploy capital in such developments, either as joint ventures with UK institutions or in their own right.

The mechanism by which capital will be drawn into private rental, and increase its supply meaningfully, will be its asset-backed nature and rental returns, which compare favourably in a UK of ultra-low savings rates and a generally compressed yield curve. It is also highly likely that London-born householders unable to own across the capital may choose to rent whilst using incomes higher than the national average to acquire far from London and become landlords drawn not least by the yields on offer.

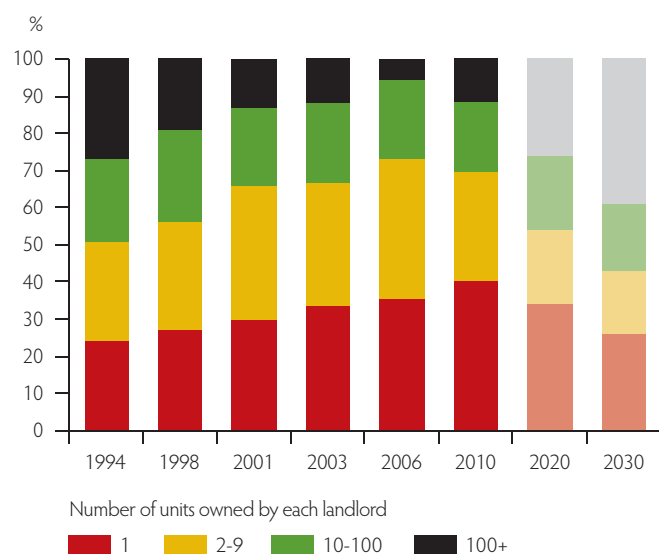
When George Osborne announced in his Budget Speech of 2014 a relaxation in the rules governing how individuals could deploy their retirement pots, he empowered those who had saved tirelessly for their retirement. And in doing so, he has forced the UK pensions industry to re-think how it raises the income to meet its obligations, given gilt yields have compressed (see Figure 6). I anticipate that pension capital will be deployed generously into the UK residential property market. Those who

Figure 4: **Private landlords by type (dwelling-based)**



Source: Landlords Survey – England

Figure 5: **Scale of private holdings (dwelling-based)**



Source: Landlords Survey – England

have carefully saved over the years will abandon low-yielding annuities to target the income and capital growth enjoyed from being landlords to others, with some of their tenants possibly being landlords in their own right.

As annuities are challenged by direct investing, this should galvanise the pension industry into a comprehensive re-easement of how it can stem the decline in demand for its end products. There will be acceleration in the pace at which it is moving into the residential sector, as well returning to being a direct owner of commercial property.

Annuity rates are likely to rise as they become increasingly decoupled from gilt yields.

Conclusion

The UK will have a commercial residential market that is 'fit' for an advanced developed economy.

Where landlords were once 'barons', they will be drawn widely across the socio-economic spectrum, some landlords letting a property that may once have been their own home at an earlier rung on their rise up the housing ladder, some specifically the outcome of the Right-to-Buy. Inheritance, too, will play a part in shifting the UK's tenure mix; almost three-fifths of those who own their home outright are retired and it is my belief that an ever-larger share of properties being bequeathed will not be sold, but rented out by the inheritor(s), many having been re-encumbered with mortgages. Inheritors will, I am sure, be keen to enjoy a rental yield higher than mortgage costs and they may even hope to live in the property one day. In addition, an increasing number of young adults will be tenants in properties where their parents happen to be the landlord. More significantly for the market will be the institutionalisation of the private rental sector as large-scale investors begin to quite literally build a presence, attracted by rental returns and the asset backing.

The UK's private rental sector tenants will be increasingly skilled and professional classes, some property owners in their own right, simply not owner-occupiers. Those with the cash flow to rent, but not yet with the balance sheet to buy, will use the private rental market because it best allows them to move around the UK to capitalise on work opportunities. Conversely, those owner-occupiers looking to work in areas where property prices are on average higher than their own will choose to become tenants in the region to which they migrate and quite possibly landlords where they originated. An increasing number will stay in the rented sector but will not stay in the same property, or indeed necessarily the same area.

We should be drawing encouragement from the renaissance in the private rental sector: encouragement because it provides ever more of a crucial ingredient for the movement of people around the UK, and encouragement because of its contribution to narrowing regional wealth dispersion. And whilst we appear to be seeing one class of landlord and another of tenant, in a growing number of cases some households are both. As tenants, people have the flexibility to be peripatetic and as landlords they hold housing equity and receive a stream of income. None of this should be unwelcomed.

Figure 6: **Gilt yields vs. residential rental yields**



Source: Bank of England, Wriglesworth Consultancy part of Instinctif Partners, and LSL Property Services plc

Prospects for institutional investment in social housing

This article summarises the key points of the report, 'Prospects for institutional investment in social housing'¹ published by the IPF Research Programme and a subsequent panel discussion, chaired by Andrew Smith of the Mill Group, who was also the chairman of the IPF Project Steering Group.

The report was presented by Michael Oxley, who led the research team, and he was joined for the panel discussion by John Carleton (JC) of Genesis Housing Association, Luke Cross (LC) of Social Housing Magazine, Sean Escott (SE) of Savills and Pete Gladwell (PG) of Legal & General Property.

In his presentation, Michael Oxley said this report had been commissioned by the IPF Research Programme against a backdrop of the need to dramatically increase the supply of housing in the UK. Estimates suggest that up to 250,000 new units need to be built every year, House builders will produce between 130,000 to 150,000 of these so the housing associations will need to contribute to the shortfall. They are already a considerable force in the market, with some 1,700 associations in England alone, of which 59 own more than 10,000 units (44% of the total housing association stock of 2.63m units).

Given that the 'traditional' sources of funding for housing associations in England (a mix of government grants from the Homes and Communities Agency (HCA) and bank debt) are changing, the IPF commissioned the research to investigate whether, and how, institutional investment might be expanded in the social housing sector. The brief was to consider:

- What is driving the appetite for investment? What are the attractions to/requirements of investors from a financial and portfolio perspective? What (if anything) is preventing additional investors entering the market?
- What is the appetite for new investment from housing associations, by reference to property type, time horizons and other factors, and how do they manage their investments? If additional funding were to be forthcoming, what would be done with it?
- Having identified any mismatches between investors and housing associations, what solutions exist to overcome these issues and encourage more investment? What are the potential benefits to the respective parties?

In seeking to find answers to these questions, the researchers undertook a literature review, a number of structured interviews with housing associations and investors, a round table discussion on 2 September 2014 with representatives of both types of organisation and considered the details of case studies in the UK and across Europe.

¹ **Prospects for Institutional Investment in Social Housing, a Major Report** by a team from the University of Cambridge and Delft University of Technology, published by the IPF Research Programme in February 2015.

Research findings

- Currently, UK institutional investors have very little equity ownership of social housing. Although their total assets exceed £3tn, and property assets of well over £150bn, equity investment in social housing accounts for only £0.4bn, a tiny fraction of the value of social housing in the UK.
- There has been a substantial increase in the use of bond finance for the provision of social housing, and this is widely embraced by housing associations. Bonds (notably fixed interest rate bonds) are the primary route by which institutions have provided finance to the sector. Sale and leaseback deals have been the main form of equity investment.
- The credit strength of the sector and lack of any losses to investors through the financial crisis have reinforced views that these assets are as a valuable source of diversification of credit risk. The Regulator in England (HCA) is recognised as having a valuable role in potentially reducing the risk of investing in social housing.
- A low interest rate environment and need to de-risk life and pension fund portfolios have supported a move to alternative low-risk assets. The attractions of index-linked cash flows are an important part of the attraction of equity investment in social housing.
- Equity investment in core social housing property in existing housing associations is limited. Investors are keen to expand their sale and leaseback portfolios, as well as many of those that have not yet invested but shown interest in the sector. Barriers to more equity investment, from the investor perspective, include:
 - Lack of understanding of the sector and the risks involved;
 - Concerns about reputational risk;
 - Scale and accessibility/deliverability of investments; and
 - Due diligence requirements.
- The advantages of bond finance, compared with bank lending, as viewed by housing associations, include overall cost, the term, lower asset cover ratios and less onerous governance requirements.
- Housing associations do not appear to have significant or substantial appetite for equity investment in their core social housing activities, not least because equity investment is seen as more expensive and less support from government and lower rates of rental increases will lead to a squeeze on reserves so some housing associations are likely to adopt a cautious approach to expansion.
- Shared ownership housing and intermediate rental housing are seen by both housing associations and institutional investors as areas that are likely to be more suited to greater equity investment than core social housing. These assets provide a low-risk route for investment and equity funding in this area and should provide housing associations with additional resources for other activities.
- Funding models used in Europe and North America show that equity does not seem to offer obvious models that could be readily implemented in the UK without substantial institutional change. Where such investment is significant, it is supported by a policy environment that includes tax incentives. Development of these types of models in the UK would require substantial changes in housing finance and taxation and the political will to make such changes permanent.
- More equity investment in social housing may be encouraged by policy changes that include taxation advantages and the promotion of an understanding by investors of the low risk, secure long-term returns. Such policy changes would recognise the wide social and economic benefits of an increase in the supply of affordable housing.

Key points from the panel discussion

LC: “A surplus of £2bn was generated in the social housing sector last year. These are good times for the sector with low interest rates (the average cost of borrowing is 4.5%) and rental inflation. Much of this surplus has been or is being reinvested. However, the sector is facing a number of challenges, not least welfare reform – the cap on housing benefit and the removal of housing benefit for 18-21 year olds on jobseekers allowance – which could impact the amount of development. At some stage, there will also be a rise in interest rates.”

“Banks represent 72% of finance in the sector but housing associations are also looking for new long-term finance. They are inherently cautious – their main priority is their tenants – and overall reputational risk is of paramount concern from an investment perspective. This being the case, they require a clear alignment of objectives with any new source of funding coming into the sector.”

JC: “There are around 2,000 housing associations in the sector and about 10% of these are actively looking to develop and grow. In the past, development by housing associations has been rewarded by index-linked income and government grants but both are less certain and my own organisation has been considering a range of scenarios, some of which assume that government funding is withdrawn altogether.”

“The key issue is how to deliver housing worth less than the cost of delivery – subsidised housing needs a subsidy! Genesis intends to add 10-15,000 homes to its portfolio over the next 10 years, using an element of PRS as a cross subsidy. The portfolio is currently valued at £2.5bn as social housing and £6.5bn based on open market values. The challenge is to find a way to use the higher valuation to finance future development through a range of formats from finance bonds to equity.”

“With regard to the huge undersupply of housing, there is already some £50bn of public subsidy tied up in the housing association sector and it is difficult to see how it will be released. In my mind, the question is; are the housing associations part of the solution to the housing shortage or part of the problem?”

PG: “Five years ago, Legal & General did not have any money invested in the social housing sector but now has several billion. We are in a period of discovery with relation to developing models for institutional investment. A lot of housing associations have learnt from deals already done and the collapse of the Cosmopolitan Housing Group two years ago was a salutary lesson for many. Most of Legal & General’s equity investment is in the long-income ‘space’ (circa £3bn) and a further £15bn housing associations have been allocated but it is difficult to find opportunities. The attraction of long income is to match long-term pension requirements.”

“The type of capital at this end of the market is absolutely critical – it is not suitable for private equity with 10-20% hurdle rates looking for short-term growth – the capital that housing associations require has to be long-term, low hurdle rates and low risk. Deals take a long time to put together, although this is partially due to the lack of ‘on the shelf models’, given this is new ground.”

SE: “I spend a lot of time advising housing associations on funding and leasing. Boards do not like sale and leasebacks or indexation but now is the time to be considering them. I think that more deals will be done by medium-sized housing associations outside London as they have fewer internal funding resources. Once housing associations have done these sorts of deals, it will be easier. Bear in mind also that there is increasing pressure from government to make this happen.”

Q & A session

• WHY DOES EQUITY FUNDING SEEM TO BE EXPENSIVE AND COMPLICATED?

PG: “We call it equity but actually more like debt secured on the housing association covenant and the fund receives income over a 50 year-period. It looks as if Legal & General will need to go more towards equity and be prepared to play across a range of options.”

“I think there will be a narrowing of the gap between social value and financial value – as neighbourhoods need to be transformed to create wealth. There will also be more blurring of the lines between private and public provision. There is a need to build trust between the housing associations, local authorities and institutions to ensure that substantial sums are invested in the sector.”

• IS THERE A MISMATCH BETWEEN FUNDERS WANTING TO LINK RENT TO RPI FOR 25 YEARS AND THE GOVERNMENT LINKING HOUSING BENEFIT TO CPI, GUARANTEED FOR 10 YEARS?

SE: “with bond finance at 4% and sale and leasebacks generally costing 5%+, it is necessary to build some inflation assumption into the funding model. However, there is a question as to who is bearing the risk.”

PG: “Legal & General is able to live with CPI and there is certainly no intention to ‘offload risk’, not least because of the long-term nature of the investment and the reputational risk to institutions such as Legal & General.”

• WHAT GOVERNMENT INCENTIVES SHOULD BE OFFERED TO ENCOURAGE HOUSING ASSOCIATIONS TO MAKE USE OF THEIR UNDERLYING ASSET BASE?

JC: “The government is looking to provide ‘carrots’ to get housing associations to use their assets. There needs to be more focus on driving value for money, particularly as it is no longer possible for housing associations to predict income accurately and then make sure that their expenditure is below this amount.”

“The sector needs operational efficiency and greater profits to plough back into providing more stock. Perhaps, there is a way for government grant to be written off, providing housing associations take on funding to build more homes. I think that a lot of housing associations are not interested in equity finance and they also need to find a way to hedge cost inflation.”

• HOUSING ASSOCIATIONS DO NOT APPEAR TO BE DEVELOPING AT THE RATE TO MEET DEMAND. WHAT IS THE DEVELOPMENT PIPELINE LIKE?

JC: “Housing association long-term rented accommodation is never going to be able to pay the same land values as build-to-sell development. Therefore, housing associations have to go where house builders do not even though it is often more difficult to find and secure these sites. Other solutions to increase the pipeline include entering into joint venture arrangements with the house builders or subsidising development from housing association surpluses.”

SE: “Building the pipeline is going to be a major challenge. In respect of what JC has just said, it is important to note that what works in London does not necessarily work elsewhere and that with regard to the use of surpluses, some housing associations are reluctant to use them in this way.”

STOP PRESS – Significant changes announced in the July 2015 Budget

- Reduction in the benefit cap to £23,000 in London and £20,000 outside London;
- Abolition of housing benefit for 18-21 year olds;
- Any household in social housing earning over £40,000 (£30,000 outside London) will be required to pay market rent;
- Extension of right-to-buy to housing association properties confirmed as a key objective; and
- A reduction in social housing rents by 1% a year of the next four years. This replaces the current (10-year) formula by which social rents were to increase by CPI + 1%.

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ALAN COOK & SIOBHAN CROSS
Pinsent Masons

One of the most fundamental (and possibly unworkable!) pieces of legislation affecting the future rental potential of properties in England and Wales lies in the Energy Act 2011. Regulations have now been passed making it unlawful to grant new leases (it does not apply to sales) of energy inefficient commercial or domestic properties after 1 April 2018. Scotland has its own legislation which will restrict both the sale and letting of energy inefficient commercial properties possibly from June 2016.

Regulation in England & Wales

The Energy Efficiency Regulations 2015 passed in March 2015 set out minimum energy efficiency standards (MEES) for England and Wales. These regulations make it unlawful for landlords from 1 April 2018 to grant a new lease (the regulations do not affect sales) of properties that require an EPC (both commercial and domestic) that have a minimum asset rating below an E on their energy performance certificate (EPC). The exceptions to this are:

- They have made specific energy efficiency improvements that are cost effective, in that they involve the landlord in no up-front cost as either the cost of the works satisfy the 'Golden Rule' in a 'Green Deal' plan or are cost effective over a seven-year payback period;
- Such work would result in more than a 5% reduction in the value of the property; or
- Third-party consent for the work cannot be obtained.

Some properties are excluded from the ambit of the regulations namely, for commercial properties, short term lettings, i.e. those under six months, or leases of more than 99 years. The regulations do, however, bring lease renewals within its ambit. In the domestic sector, exclusions include any lettings which are not assured or regulated tenancies and lettings by public sector landlords, i.e. government departments, local authorities and housing associations.

These requirements are compounded by changes to the Building Regulations that came into force on 6 April 2014, which mean that properties that have already been assessed for an EPC may well be given a lower asset rating if a new EPC is triggered and the property is reassessed. As a result, a property that currently has a rating of E could be downgraded to an F, taking properties into the category where a new lease cannot be granted after April 2018, unless specific energy efficiency improvements are made first or another exemption applies.

Most analysts estimate that around 18% of the commercial built environment in England and Wales currently falls below an E asset rating.

Of even greater significance is the additional requirement that as from April 2023 for commercial property, and from April 2020 for domestic properties, landlords will not be permitted to continue to let a property with an EPC asset rating below an E unless specific energy efficiency measures have been carried out first or one of the other exemptions above applies.

Regulation in Scotland

Forthcoming regulations under the Climate Change (Scotland) Act 2009 will provide for improvements to the energy efficiency of non-domestic buildings in Scotland over 1,000 sq m that do not meet 2002 building standards.

The trigger for improvement works to take place will be when the owners wish to sell or lease the property (though not lease renewals) once the regulations come into force (now proposed for June 2016). When either event occurs, the property owner will be required to provide the purchaser or tenant with an action on carbon and energy performance (ACEP), which will comprise an EPC and an 'action plan' – the latter sets out how the energy performance of the building can be improved and greenhouse gas emissions reduced. The purchaser/landlord will then have the option of either carrying out the works specified in the action plan within a set period of time (3.5 years has been suggested) or recording the energy usage of the property over a period of time, with a view to reducing the energy consumption.

Energy efficiency measures are also to be introduced for domestic property although this is still at the consultation stage.

The onus will be on landlords to ensure compliance and the Scottish Government is currently grappling with the landlord/tenant issues which arise.

As in England and Wales, the implementing regulations are expected to exempt premises in respect of which there is a Green Deal plan. It is also worth noting that, while EPCs play a key role in both regimes, in Scotland the basis for assessment of EPC ratings is different from that in England & Wales, which can lead to different ratings for otherwise identical buildings. It is anticipated that this will be regularised in time.

The position in Northern Ireland

Northern Ireland does not yet have an equivalent of the Energy Act or the Climate Change (Scotland) Act. However, there is a draft Climate Change Bill, and the Northern Ireland Executive's Programme for Government contains a target to reduce greenhouse gas emissions by at least 35% by 2025 on 1990 levels. As a result, there are no current proposals for minimum energy efficiency standards on sales or lettings but investors, developers and funders should keep under review the progress of the Bill.

Action now

The combination of environmental costs and the threat to the rental potential for properties makes it essential that property investors and developers, and their funders, understand the intricacies of this area of regulation. They should review their property portfolios now to identify properties with energy efficiency asset ratings of F and G, which will be unmarketable beyond 2018, and consider a strategy for carrying out of energy efficiency improvements..

ESOS: energy saving opportunity or administrative pain?

ALEX HILL
Aviva Investors

This year has seen a lot of attention given to energy performance certificates (EPCs) and organisations have spent the past few weeks completing Global Real Estate Sustainability Benchmark (GRESB) surveys. However, there is another acronym on the sustainability scene this year... ESOS. This implements Article 8 of the EU Energy Efficiency Directive in the UK. The Directive is a package of measures aimed at helping the EU meet its 2020 energy efficiency target.

ESOS or the Energy Savings Opportunities Scheme requires 'large organisations' in the UK to carry out energy assessments every four years using a qualified assessor, who can be internal or an external consultant. The first compliance deadline is 5 December 2015.

ESOS qualifying organisations must appoint an ESOS 'lead assessor' to conduct an ESOS assessment, which is an audit of the energy used by an organisation in its buildings, industrial processes and its transport fleet. The theory behind ESOS is relatively simple:

- An organisation with significant energy spend follows a robust audit process;
- Energy saving opportunities are identified out of that process and presented to senior management; and
- The organisation then acts upon those opportunities and saves both energy and cost – this is optional!

Of course, for property investors, it is not so straightforward, given the complication of the landlord-tenant relationship and the fact that the payback period for a particular energy-saving measure may be longer than the investment time horizon.

Organisations must ensure that at least 90% of their qualifying energy consumption from buildings, industrial processes and transport is subject to an ESOS-compliant energy audit. Fortunately, there is no need to audit every office or every shopping centre in the portfolio as similar buildings can be combined. However, the 'sampling' strategy must be agreed with the appointed lead assessor, which may create something of a conflict if the lead assessor is being paid to carry out site audits and also approve the number of audits that is acceptable.

Those organisations that have their energy management system (EMS) certified to ISO 50001 are rewarded as this provides exemption from most of ESOS. It is therefore an attractive option for complex organisations. However, ISO 50001 is onerous in itself and the certification process takes considerable time.

There is not much time to act before the 5 December deadline. In addition, organisations with European operations may also need to comply with equivalent legislation in EU member states before the same deadline.

ESOS definition of a large organisation

If on 31 December 2014 it:

- Employs at least 250 people; or
- Has an annual turnover in excess of €50m and a balance sheet in excess of €43m

A corporate group will qualify if at least one of its undertakings meets the ESOS qualification criteria.

UK Consensus Forecasts May 2015

PAM CRADDOCK
IPF

Although previous survey results have forecast lower performance expectations from the high point of 2014, near-term projections have firmed over the quarter, with the consensus for 2015 now suggesting total returns at the All Property level of 13.0%. Stronger capital value growth prospects are driving this improvement and, as a consequence, the five-year average has also increased.

Rental value growth forecasts

Whilst there is a continued expectation that rental growth will decline gradually over the next five years, sentiment has strengthened for the current year and 2016 (from 3.3% and 3.0% in February) but weakened slightly in the final two years of the survey period compared to three months ago.

The impact on the five-year average is negligible, however, which is just in excess of 2.6%.

Capital value growth forecasts

Capital value growth predictions continue to show a sharp decline over the period of the survey, but, like rental value growth, have improved again for the current year and 2016 (from 7.0% and 3.1% three months ago).

Weakened growth forecasts are reported in the middle years of the survey (previously 0.6% and 0.2% for 2017 and 2018). Stronger projections in 2015 and 2016, however, have resulted in a rise in the five-year average (to 2.6% per annum from 2.3%).

Figure 1: All Property rental value growth forecasts

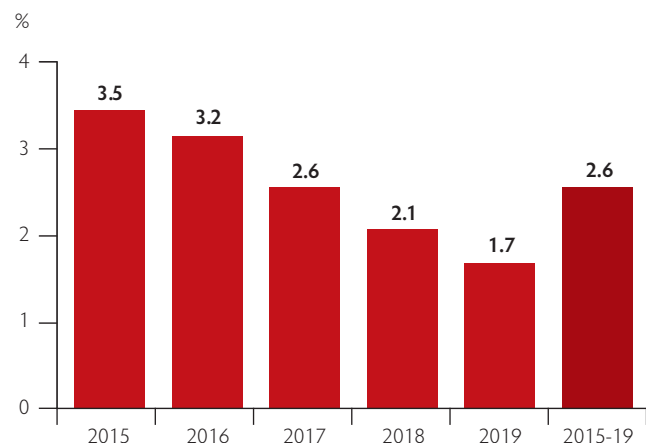
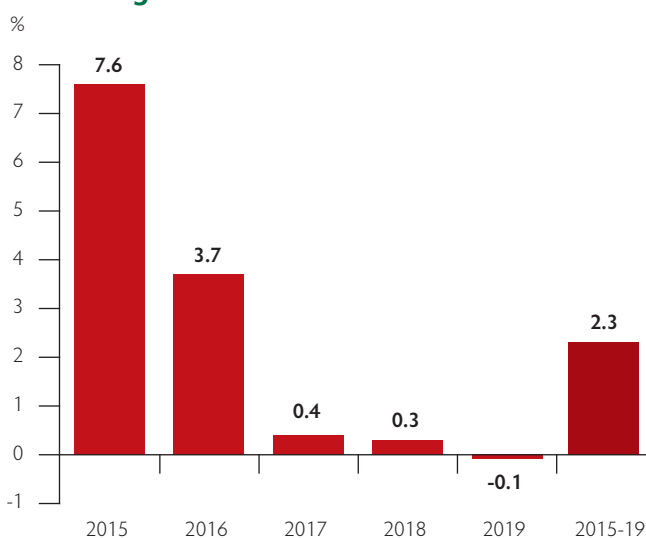


Figure 2: All Property average capital value growth forecasts



Total returns forecasts

In the current year, the majority of performance overall is expected to be derived from the capital return element. Firming sentiment for capital value growth has resulted in the predicted total return improving by more than 0.6% over the quarter and a similar magnitude of general increase is predicted for 2016.

By 2017, whilst capital returns fall substantially, the total return figure may be further depressed as a consequence of earlier capital value appreciation, which may squeeze the implied income return. This component of return may decline to below 5.0% for a short period, a level not recorded since 2008.

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

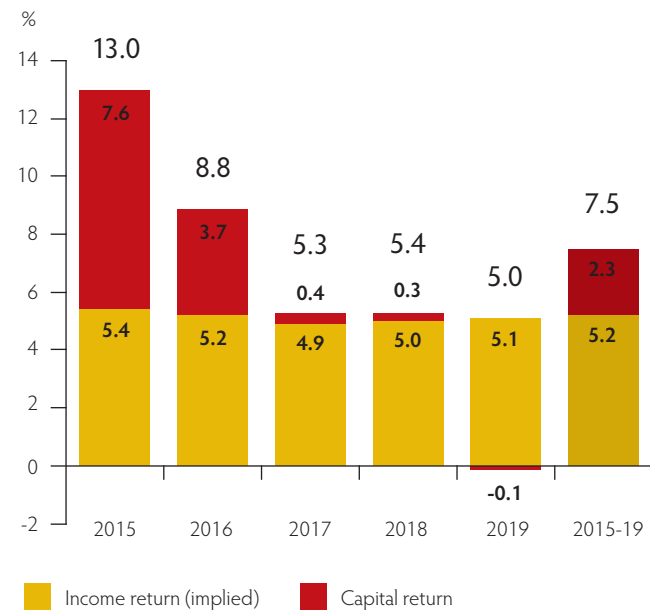


Figure 4: **Property advisors and research consultancies**

13 (12) contributors	Rental value growth %			Capital value growth %			Total return %		
	2015	2016	2015-19	2015	2016	2015-19	2015	2016	2015-19
Maximum	4.6 (5.4)	4.4 (5.1)	3.4 (4.0)	9.3 (9.0)	6.7 (6.4)	4.4 (4.4)	15.4 (14.1)	11.7 (11.3)	9.8 (9.3)
Minimum	2.9 (2.9)	2.3 (2.3)	2.3 (2.3)	5.6 (3.0)	1.0 (1.3)	-0.6 (0.0)	10.9 (8.4)	6.5 (6.5)	4.9 (6.0)
Range	1.7 (2.5)	2.2 (2.8)	1.1 (1.7)	3.7 (5.9)	5.7 (5.1)	5.0 (4.4)	4.5 (5.7)	5.2 (4.8)	4.9 (3.3)
Median	3.6 (3.4)	3.1 (3.3)	2.9 (2.9)	7.5 (6.8)	2.9 (2.7)	2.9 (3.0)	13.0 (11.9)	8.0 (7.7)	8.2 (8.1)
Mean	3.7 (3.6)	3.2 (3.2)	2.8 (2.9)	7.5 (6.6)	3.5 (3.1)	2.7 (2.6)	13.0 (12.0)	8.6 (8.3)	8.0 (7.8)

Figure 5: **Fund managers**

15 (15) contributors	Rental value growth %			Capital value growth %			Total return %		
	2015	2016	2015-19	2015	2016	2015-19	2015	2016	2015-19
Maximum	4.3 (3.8)	4.7 (4.4)	3.7 (3.7)	13.7 (13.7)	8.0 (10.0)	3.8 (3.9)	18.3 (18.8)	15.0 (17.0)	9.0 (9.0)
Minimum	2.3 (1.5)	1.7 (1.1)	1.3 (1.3)	2.5 (2.5)	-0.6 (-2.4)	-0.3 (-0.7)	9.4 (8.2)	4.3 (2.2)	4.6 (4.2)
Range	2.0 (2.3)	3.0 (3.3)	2.4 (2.4)	11.2 (11.2)	8.6 (12.4)	4.1 (4.6)	8.8 (10.6)	10.7 (14.8)	4.4 (4.8)
Median	3.3 (3.2)	3.1 (2.6)	2.6 (2.5)	7.7 (6.8)	4.3 (2.7)	2.2 (1.7)	13.0 (12.2)	9.0 (7.8)	7.1 (6.6)
Mean	3.3 (3.1)	3.1 (2.7)	2.5 (2.3)	7.6 (7.2)	3.8 (3.0)	2.0 (1.6)	13.0 (12.6)	8.9 (8.0)	7.0 (6.6)

Figure 6: **All forecasters**

30 (28) contributors	Rental value growth %			Capital value growth %			Total return %		
	2015	2016	2015-19	2015	2016	2015-19	2015	2016	2015-19
Maximum	4.6 (5.4)	4.7 (5.1)	3.7 (4.0)	13.7 (13.7)	8.0 (10.0)	4.4 (4.4)	18.3 (18.8)	15.0 (17.0)	9.8 (10.1)
Minimum	2.3 (1.5)	1.7 (1.1)	1.3 (1.3)	2.5 (2.5)	-0.6 (-2.4)	-0.6 (-0.7)	9.4 (8.2)	4.3 (2.2)	4.6 (4.2)
Range	2.3 (3.9)	3.0 (4.0)	2.4 (2.7)	11.2 (11.2)	8.6 (12.4)	5.0 (5.1)	8.8 (10.6)	10.7 (14.8)	5.2 (5.9)
Std. dev.	0.6 (0.7)	0.7 (0.8)	0.7 (0.7)	1.9 (2.4)	2.2 (2.6)	2.1 (1.5)	1.8 (2.4)	2.3 (2.8)	2.3 (1.5)
Median	3.5 (3.4)	3.1 (3.0)	2.6 (2.6)	7.5 (6.8)	3.8 (2.8)	2.5 (2.0)	13.0 (12.2)	9.0 (7.8)	7.6 (7.2)
Mean	3.5 (3.3)	3.2 (3.0)	2.6 (2.6)	7.6 (7.0)	3.7 (3.1)	2.3 (2.1)	13.0 (12.4)	8.8 (8.2)	7.5 (7.2)

IPF European Consensus Forecasts May 2015

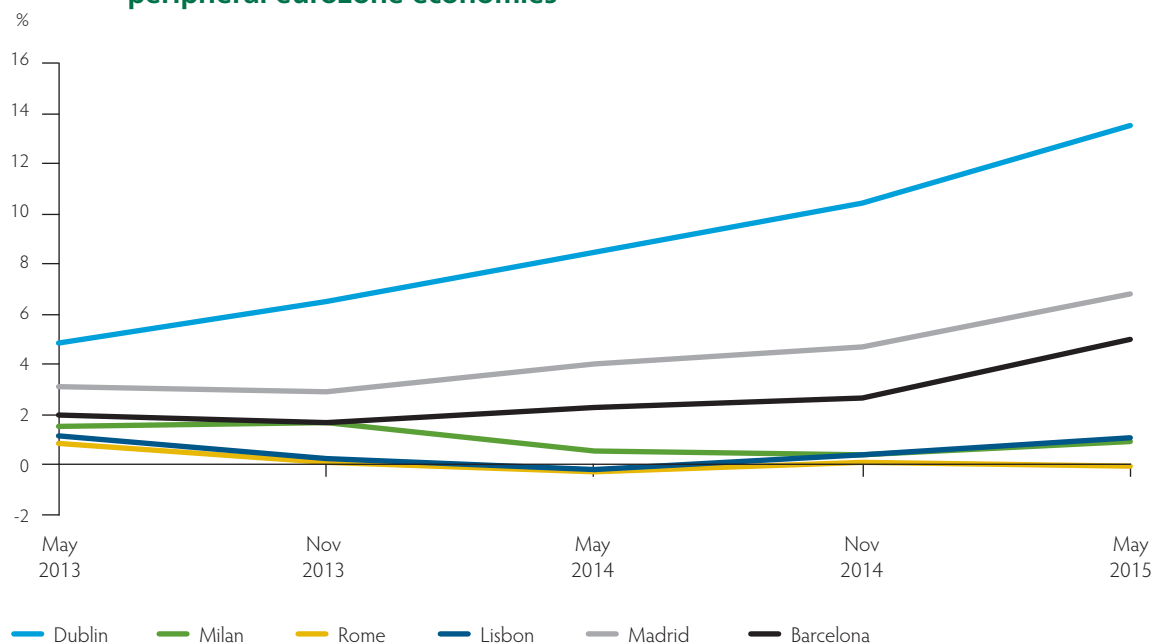
PAM CRADDOCK
IPF

The range of forecast average growth rates across all centres has increased to 26.9% from 14.6% in the last survey. The lack of consensus amongst individual forecasters for the Moscow market has fallen over the last six months, as the spread of forecast growth rates has reduced from 34.6% to 14.4% for 2015. This range of opinion in growth rates is only exceeded by those for the Dublin market, which has attracted a spread of 18.2% across the 12 contributor forecasts for this location. Clearly, views on economic growth expectations, of up to 4.0% in 2015, would make Ireland among the fastest growing economies in the EU and, combined with a rapid reduction in unemployment rates, could exert considerable influence on the performance of the office sector.

Outlook for 2015

Figure 1 shows current forecasts for locations in those economies that have been under the greatest strain during the eurozone crisis. With the exception of Rome and Milan, all centres appear to be maintaining their upward course in terms of rental growth expectations.

Figure 1: **Weighted rental growth forecasts year-end 2015 – peripheral eurozone economies**



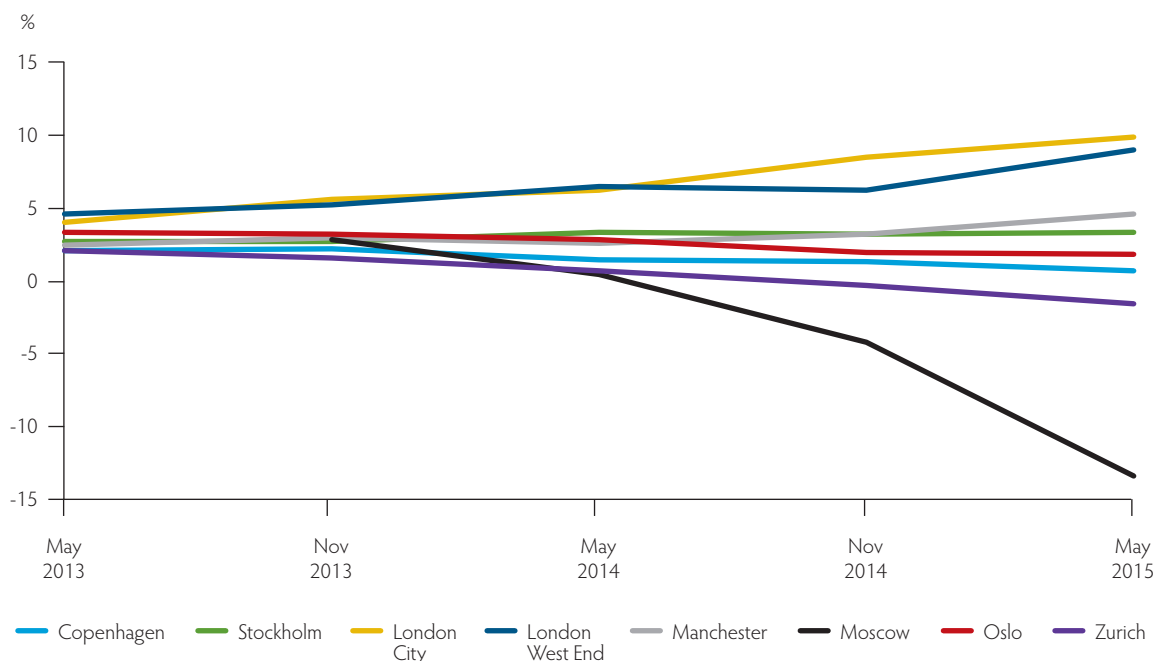
In eastern Europe, the average outlooks for Warsaw and Prague have worsened slightly (from -1.7% to -3.3% for Warsaw and from -0.5% to -1.5% for Prague), whereas the Budapest market is continuing to improve (from 1.0% to 2.8%).

The remaining location expected to deliver negative growth in 2015 is Zurich at -1.6%, weakening from -0.3% in November.

Of those centres within the eurozone projected to deliver positive growth, in addition to Dublin, Madrid and Barcelona, the strongest expectations lie with Luxembourg (4.9% from 2.8% in November) and Munich at 3.0% (from 2.4%). For the remaining locations, all but Paris La Défense are expected to exceed 1.0% growth.

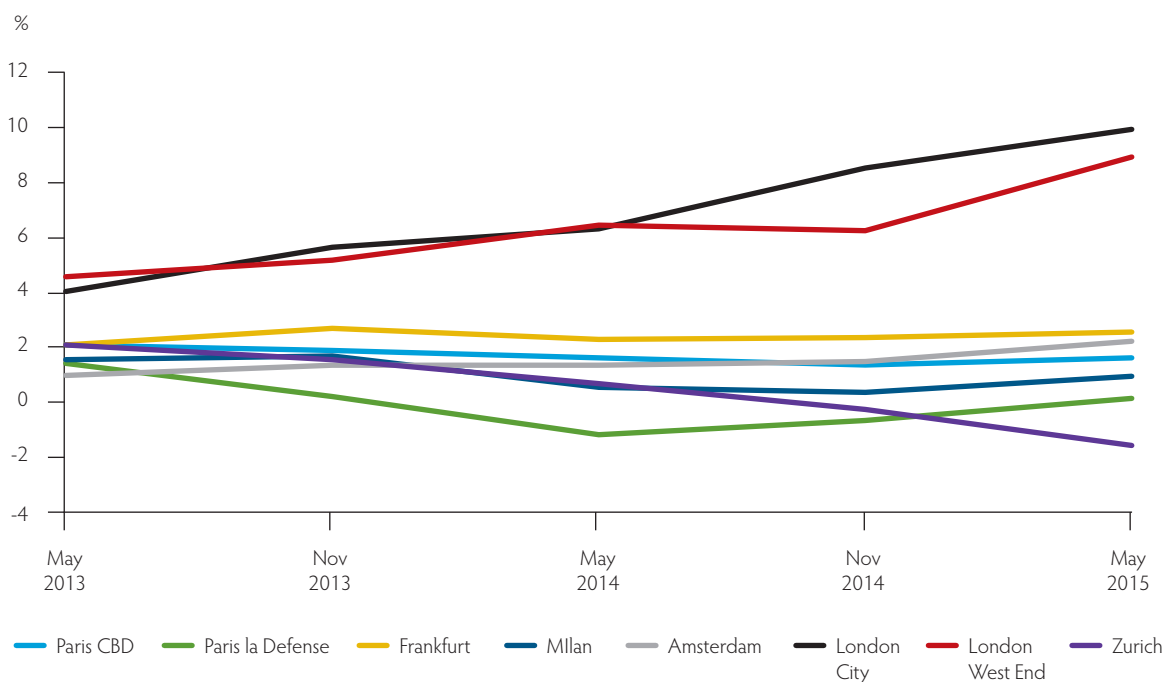
Outside the eurozone, prospects for growth have weakened compared to 2014 forecasts in five of eight locations, led by Moscow (-13.4%) and Zurich at -1.6%, as shown in Figure 2. Again, positive sentiment for the two central London markets is maintained with both expected to deliver increased growth of up to 9.9% (8.5%) in the City and 9.0% (6.2%) in the West End. The predicted growth rates for Copenhagen and Oslo have fallen to 0.7% and 1.8% respectively (from 1.4% and 2.0%), whilst for Stockholm the average rate has remained stable at 3.3%. Manchester's prospects have strengthened further to 4.6% (from 3.2% six months ago).

Figure 2: **Weighted average rental growth forecasts year-end 2015 – Non-eurozone centres**



Within the major financial centres, London, Frankfurt and Amsterdam are projected to achieve growth in excess of 2.0% in the current year, the latter being projected at 2.5% and 2.2% respectively. Rental growth rates in both Paris markets and Milan are expected to improve, reversing previous weakening projections – as shown in Figure 3.

In the Nordic region, projections for Helsinki have resulted in a notable rise in average expectations, to 2.4% from 1.0% in November, despite a reported increase in the office vacancy rate. Both the Oslo and Copenhagen markets have continued to weaken (currently 1.8% and 0.7%), the former possibly reflecting continuing oil price uncertainty, which has resulted in a slowdown in the oil and offshore industry with consequent employee cutbacks.

Figure 3: **Weighted average rental growth forecasts year-end 2015 – financial centres**

Outlook for 2016, 2017 and beyond

Whilst all but one of the 30 centres are projected to deliver positive growth in 2016, forecasts have softened in almost half of these markets (14) over the last six months. In only five instances have forecasts improved by more than 1.0% over the half year since the last survey, these being for both of the Spanish and London markets and for Dublin. Despite this moderating of opinion amongst contributors, average growth expectations of 2.0% or more are recorded in 14 office markets, with Madrid moving ahead of Dublin in the rankings at 6.8% compared to 6.7%. The most improved market in 2016 may be Moscow, the projections for which average 1.2% (a 14.6% increase on 2015). However, the seven forecasters contributing data continue to hold widely differing opinions on the prospects for this market, ranging from 12.3% to -10.2% (the median figure being 0.0%).

The first forecasts for 2017 average 2.0% across all centres but range from a maximum of 6.1% for Madrid to 0.1% for Budapest. Contributors anticipate a continuation of the decline in growth rates, which extends to 19 centres, with the biggest possible reduction being in the Dublin market (from 6.7% in 2016 to 1.5% in 2017). However, the majority of weaker forecasts (12 of the 19) are currently projecting falls of less than 1.0% on 2016 figures.

Only two of the three-year average forecasts indicate negative annual growth compared to seven in November 2014. Moscow and Warsaw continue to be the weakest projected markets, with average annualised rates of -2.8% and -1.2% respectively. In the six months since the last survey, 16 forecasts have improved by more than 1.0% per annum and, of these, eight by more than 2.0%.

Of the 28 markets averaging positive growth, only three (Zurich, Prague and Athens) may deliver less than a 1.0% improvement, whilst a further 13 are expected to deliver between 1.0% and 1.9% annually over the three years. For the remaining 12 locations, annual rental growth rates of between 2.0% (Luxembourg) and 7.1% (Dublin) are predicted.

With the exception of Moscow (averaging -0.2%), the five-year forecasts are positive for all centres. Average growth rates in 14 markets have improved since November, but only in two by more than 1.0% (Moscow and Paris La Défense). Of the 11 locations where average forecasts exceed 2.0% per annum, Madrid (5.7%) and Barcelona (4.5%) occupy the highest positions in this group, followed by Dublin (4.0%) and the City and West End of London markets (2.9% and 2.8%).

Announcement

A new chapter for the IPF Investment Education Programme

The IPF's Investment Education Programme (IEP), formerly the Advanced Education Programme, was launched in 1999. Since then, some 200 people have completed the entire Programme and been awarded their IPF diplomas.

The University of Cambridge Institute of Continuing Education has been running the IEP on behalf of the IPF since September 2009. Prior to that, the Programme was delivered by the Cambridge International Land Institute (CILI) and, prior to that, jointly by CILI and Cass Business School.

The Programme provider is about to change again. We are delighted to announce that the University of Reading has agreed to take over the running of the IEP from the beginning of October, i.e. at the start of the 2015-16 Programme. Staff from Reading will be working with those of the Institute in the interim to ensure a smooth transfer.

For further information about the 2015-16 Programme, please contact Frankie Clay; fclay@ipf.org.uk



Investment Education
Programme

Invest in your
property future

For more information or to discuss your professional development requirements, please contact Frankie Clay at the IPF:

Tel: +44 (0)20 7194 7928
Email: fclay@ipf.org.uk
Website: www.ipf.org.uk



Stay one step ahead in a fast-moving and global market with the Investment Property Forum's well-established education programme. The seven modules that make up the programme offer an applied, practical approach underpinned by the latest academic research. Since its launch in 1999, some 700 individuals, from a wide variety of organisations, have participated with more than 200 completing the seven full modules and gaining an IPF Diploma.

The modules, which each include a 3-day face-to-face session, are:

- Investment Valuation & Portfolio Theory
- Financial Instruments & Investment Markets
- Property Investment Appraisal
- Property Finance & Funding
- Indirect Property Investment
- International Property Investment
- Portfolio Management

Forum Activities and Announcements

IPF Executive

We are delighted to welcome Roseanna Allnutt, our new Administrative Assistant, to the Executive team. She is already helping to ensure the smooth running of the IPF and will become a regular face at our events.

Board changes

At the Annual General Meeting, Chris Ireland of JLL succeeded Max Sinclair as Chairman of the IPF. Ciaran Carvalho of Nabarro is now Chris's Vice-Chairman.



Michael Stancombe and Chris Morrish have stepped down from the Strategic Advisory Group. We are grateful to them for the time and energy they have invested in the IPF over the years.

We are pleased to welcome Pam Craddock and Juliet Thomas to the Operational Board. The Strategic Advisory Group has been bolstered by the addition of Gordon Aitchison, David Atkins, Jenny Buck, Philip Nell, Vicky Skinner, Sarah Slater and Jean-Marc Vandevivere.

Fraser McPhail of Santander has succeeded Stuart Tait as Chairman of the IPF Scotland Board.

Rob Millington of Cheetham & Mortimer has succeeded Roy Beckett as Chairman of the IPF Northern Board.

IPF Annual Lunch

The IPF's Annual Lunch took place on Friday 31 January at The Hilton Park Lane, London W1. The Lunch speaker was Tim Harford. At a pre-Lunch drinks reception, the below individuals were awarded the IPF Diploma.



IPF Diplomas awarded 2013-14

Alan Knight	HSBC Bank
Paul Lewis	SEGRO
Niall Macdonald	Standard Life Investments
Douglas Mitchell	
Pamela Rarity	
George Shaw	Standard Life
Neil Tweedie	Cordatus Real Estate
Jan Van Bakel	CBRE Global Investors
Ronald van der Waals	CBRE Global Investors



Diploma Prizewinners

Paul Lewis was this year's winner of the John Whalley Prize for best overall performance in the Diploma.



Pamela Rarity was awarded the IEP Module Prize for the best performance in a single module.



IPF Annual Dinner

The Annual Dinner took place on Wednesday 24 June at The Grosvenor House Hotel, London. Our speaker was William Hague, fresh from the heart of government.



Nick Tyrrell Research Prize

This year's Nick Tyrrell Research Prize attracted a record 36 submissions by the 31 May closing date. The judging panel, comprising Paul McNamara (Chair), Martin Hoesli, Nick Mansley, Brenna O'Roarty and Neil Turner, has a busy summer ahead!



IPF Midlands Lunch

The Midlands Lunch took place at the ICC in Birmingham on Friday 1 May. Steve Norris was our after-Lunch speaker.

IPD/IPF Property Investment Awards 2015

The 15th IPD/IPF Property Investment Awards were hosted in March by Berwin Leighton Paisner. The Church Commissioners and The Lime Property Fund were joint winners of the award for 10-year risk-adjusted absolute returns. The Church Commissioners also took home the 10-year risk-adjusted relative return award.





Investment
Property Forum

Northern Dinner 2015

**Thursday,
26 November 2015**

The Lowry Hotel, 50 Dearmans Place,
Chapel Wharf, Salford, Manchester

19:00 Pre-Dinner drinks

19:30 Dinner

Black Tie



Guest Speaker: John Lloyd

Author and driving force behind 'Not the
Nine O'Clock News', 'Blackadder' and 'QI'

Ticket price: £85 +VAT

£102 inclusive of VAT @ 20% per person. The ticket
price includes pre-Dinner drinks reception together
with a half bottle of wine per person with Dinner.

IPF members may reserve tables for the Northern
Annual Dinner by completing the form overleaf.



This event is kindly sponsored by:





IPD/IPF PROPERTY INVESTMENT CONFERENCE

November 19–20, 2015

The Grand Hotel

Brighton, UK

SPEAKERS INCLUDE:

- Goh Kok Huat, Chief Operating Officer, GIC and President, GIC Real Estate
- Don Jordison, Managing Director, Threadneedle Property Investment
- Nigel Hugill, Executive Chairman, Urban & Civic
- Malcolm Frodsham, Founder, Real Estate Strategies
- After dinner speaker, Sir Malcolm Rifkind, former UK Foreign Secretary and Minister of Defence

- Two day conference
- Celebrating 25 years
- Attracts over 400 delegates
- Presentations & debates
- Excellent networking
- Gala dinner
- Exceptional keynote speakers

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 **IPF** Investment
Property Forum



Investment
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HOLD THE DATE

Annual Lunch 2016

Friday, 29 January

London Hilton on Park Lane,
Park Lane, London W1

11:45 Pre-Lunch drinks

12:30 Lunch

15:00 Lunch finishes and bar opens

Lounge Suit

Booking for the Lunch will open shortly.
In the meantime, please contact
Barbara Hobbs – bhobbs@ipf.org.uk –
to register an interest in booking and to
receive advance notification.

Ticket price: £120 +VAT

£144 inclusive of VAT @ 20% per person.
The ticket price excludes wine and other beverages.



This event is kindly sponsored by:



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