



IPF Debates the Lease Code Interim Report

Professor Neil Crosby presented the principal findings of the Interim Report on the Lease Code that The University of Reading prepared for the ODPM, at an IPF members meeting at Linklaters on Monday 24 May. The report, which was published by the ODPM on 23 April, has attracted much media attention. The IPF invited Neil Crosby to present his findings so that IPF members could better understand the complexities of Reading's report.

Following the presentation from Neil, a discussion panel of Andy Martin (Strutt & Parker) John Pike, (Network Rail and Chairman of the CBI property committee), Martin Elliott (Linklaters), Paul Rivlin (Eurhypo) and Francis Salway (Land Securities) led a debate about the issues, which sparked much discussion among the IPF members present.

Neil welcomed the opportunity to tell IPF members what the research team have actually found, "not what we have been reported to have said and done".

The University is commissioned to answer some specific questions concerning flexibility and choice in the commercial lettings market and the awareness of tenants. Neil's team have analysed data on new leases granted up to April 2004, a full two years after the introduction of the new Lease Code in 2002. Whilst the formal data collection period has ended, the research team clearly will use any additional research and analysis it uncovers or is published in their final report which will be presented to the ODPM in December 2004.

According to Neil, a key finding of the interim report is that some market driven flexibility changes have taken place. Lease lengths are shorter and more diverse, with more breaks.

There is clear unambiguous evidence that over the last 10 years the average lease term has shortened. Based on IPD data in 2002 the un-weighted new lease length averaged 13.8 years, having fallen from 16.4 years in 1997. Break clauses are more prevalent, with 60% (un-weighted) of leases being 5 years or less, or having a break within the first 5 years. Landlords are also more readily mitigating repair liabilities of tenants with schedules of conditions.

Whilst the 2002 Lease Code contained 10 recommendations for the negotiation of new leases, according to the research team, three of them had elicited limited response from the property market:

1. Appropriately priced alternative lease terms;
2. The alternative forms for rent review patterns; and
3. Provisions for assignments and sub lettings.

Referring to the only opinion in the interim report, Neil said it was unrealistic to ask landlords to present, in the short-term, appropriately priced alternative lease terms.

The research did not identify a widely accepted methodology adopted for pricing alternative lease terms. 'If you can not price it then you can not offer it' said Crosby. The preliminary interview evidence showed that lease pricing is intuitive. Neil doubted if many small or medium business tenants have the sophisticated financial modelling skills to assess the true value of the alternative lease terms.

Crosby told members that there is no evidence of significant changes to rent reviews. No alternative rent reviews appear to be either offered by landlords or sought by tenants.

Similarly, on assignment and sub-letting the initial evidence is that landlords are still insisting on controls and offering tenants little additional flexibility.

Crosby explained that the interim report highlighted three areas where flexibility appeared to be increasing: reducing lease lengths; greater uses of break clauses; and mitigating repairing liabilities with schedules of conditions. However there are still two static areas: insistence on the upward only rent review and inflexibility in assignment and sub-letting.

The discussion panel reminded IPF members that most tenants are not interested in the property business and only occupy property for their overall business activities. Tenants often do not fully understand the property markets or rarely want to assume property risk inherent in inflexible leases and upward only review reviews. Landlords must look to the future and develop modern ways of delivering accommodation to tenants, and not be backward looking. Landlords must be more pragmatic and responsive to market conditions. Tenants just want 'out' at the end of lease, without worries about residual liabilities and complex negotiations about dilapidations or assignments. The panel agreed that the market is much more flexible than 10 years ago, but accepted that more is being done to further improve flexibility.

In terms of occupational choice for tenants, it was vital to assess this across the whole market rather than solely concentrating on individual properties. Leasing structures should be tailored to the specific characteristics of local property markets and individual buildings. Tenants looking for space today have a range of different occupational choices from serviced accommodation through to outright purchase. The anecdotal evidence is that office occupiers and industrial occupiers are more accepting and demanding of flexibility, whilst some retailers still demand longer leases.

The panel stressed that tenants need to be aware of the implications on their business of shorter leases, with new accounting standards and the need to write off often very expensive fit out costs over shorter periods. Occupiers raising capital through sale and leasebacks will find that flexible and shorter lease may reduce the capital raised, as lenders

In this Issue

- 2 Chairman's View
- 3 Liquidity in Commercial Property Markets
- 6 Integrating Sustainability Policy
- 8 Education 2004
- 9 IPF Diplomas Awarded
- 10 Passage to India
- 11 GIPS
- 12 Doing deals
- 14 Members guide to the IPF website
- 14 Forum Activities
- 15 A Word from our Annual Dinner Sponsors

Consultant Editor

Sue Forster,
Freeman Business
Information Plc

IPF
3 Cadogan Gate
London SW1X 0AS
tel 020 7334 3799
fax 020 7334 3872
email ipfoffice@ipf.org.uk
web www.ipf.org.uk

Chairman's View

Andy Martin of Strutt & Parker and IPF Chairman 2004/05 looks to the year ahead



Andy Martin

I have to say I am immensely proud to be writing this as your Chairman for the next year.

As we celebrate our 16th year, it is worth reflecting on just what has been achieved and where our challenges are for the future. I am reminded of Newton's quote on the rim of a £1 coin – "standing on the shoulders of giants" which is exactly how I feel looking at the IPF going forwards. We achieved a massive step up in our profile by not only taking the lead in drafting the discussion paper which was handed to the Treasury on REITS (I, like our President, prefer this to PIFS), but also by announcing an ambitious research programme. This has enabled us to spearhead thought leadership in a real estate investment industry which continues to enjoy a real renaissance amongst long term investors.

The establishment of the Research Fund approaching £750,000 and the appointment of Charles Follows, our Research Director, has put us in a strong position to continue what we have started. Special thanks are due to the IPF Educational Trust and our generous donors.

Our website contains all the IPF's work to date on UK REITS and I would urge you to participate by responding to the Government's discussion paper – either directly or via the IPF by the due date of 16 July. We will be updating our website with the submissions sent to Government and I hope the site becomes truly interactive as the debate continues.

Not attracting quite the same level of press but nonetheless important, is the admissibility of property derivatives for Life Companies, also announced in the last budget. The IPF has again been involved in this debate and has taken the opportunity of amalgamating with the Property Derivative Users Association. This was a logical step in ensuring this exciting market development is underpinned by the right information and education.

Speaking of education, we handed out our 65th Diploma for the IPF's Advanced Education Programme and this year, Nick Tyrrell of JP Morgan Fleming Asset Management was awarded the John Whalley Prize for the highest mark in the IPF's Diploma. Here again we are moving to ensure we meet members' needs by launching a new International Property

Investment module later this year. Our special thanks also go to the Programme Director, Derek Nicholls of Cambridge International Land Institute who retires this year.

As part of our responsibility to the market place, in both broadening interest in property as an investment asset class and extending education, we recognised the growing impact of private investors by publishing our Guide for Financial Advisors. This has received much applause from the industry, FSA and Society of Independent Financial Advisors.

Our membership has grown to over 1,500 and we are delighted by the increasing strength of branches in Scotland and the West Midlands, led by Fiona Morton and Andrew Brazier respectively. To these, we welcome a North West branch led by Andrew Hawkins. I am delighted to report Ian Marcus who pledged to support our regional growth in his Chairmanship will continue in this role.

As we look forward, I see the REIT discussion reaching a pivotal stage and we will all be keen to see the outcome over the next six months. The IPF will continue to provide input into this process.

Added to this, we must also consider the Lease Code. It is important to participate in this debate and we have made steps to provide a platform to link the investor and the occupier. Research in this area is already planned. We should not forget the changes in accounting standards, placing occupational leases under the same treatment as finance leases, as part of this debate. I believe these challenges give us the opportunity to utilise our new research resources to the full and provide informed opinion at the highest levels.

We are also launching a new quarterly Transactions Report to complement our two existing markets surveys – Consensus Forecasts and Investment Intentions. This will cover transactions activity in the UK investment market showing trends in transaction volumes, broken down into investor types, property sectors, sales and purchases.

However, in all of this success we need to ensure that you, our members, still receive the high level of attention, service and education opportunities that you are used to. We now have a new, more member-focused website; monthly enews service; and a wider range of member-only events and materials. Already our Executive are managing an

average of one event a week and there are plans to expand their resources in order not to lose sight of the need to maintain our high standards.

So now to thanks; none of this would happen without the dedication of our Executive Team led by Amanda Keane. I know she will join me in thanking Ian Marcus for a fantastic year in the Chair of our Management Board.

I would like to thank on your behalf our Board members who have devoted a not inconsiderable amount of time this year to planning and guiding our growth. In particular, I must thank two directors who have stepped down. Karen Sieracki, without whom our CPD programme will not have achieved the level of commitment it now enjoys; and David Hutton, who was key in formulating our new Vision document which has provided essential guidance to us as we step into the new territories.

I am delighted to say that in their place we have found two excellent new Board members in Andrew Hynard of Jones Lang LaSalle and Peter Pereira Gray of the Wellcome Trust.

We recognised that as the Forum grows, continuity in management is essential. For this reason, we have sought to ensure that leadership changes are as seamless as possible. So, we have introduced a policy of appointing both a vice chairman and deputy vice chairman, giving us the opportunity of three years forward thinking. I could not ask for better support than I will get from our vice chairman, Paul McNamara of Prupim, and I am delighted to tell you that Ian Womack of Morley has agreed to take over as deputy vice chairman.

This next year promises to be one of formulating great change in our industry. Our objective is to deliver the level of information and education to equip you for exciting and challenging times ahead.

Article written by
Andy Martin,
Strutt & Parker

Liquidity in Commercial Property Markets

A Summary of Research for the IPF

Introduction

In examining the qualities of real estate as an investment asset, 'illiquidity' is a much-cited disadvantage. Institutional, professional and private investors express concern at the lack of liquidity or require higher returns in compensation. Much of the justification for new property investment vehicles – such as REITs – comes from their ability to enhance liquidity. Surprisingly, there has been very little research into such a key concept.

The following is a summary of key findings from a research project on liquidity in commercial real estate markets, funded by the joint research programme of the IPF and IPF Education Trust. The research was completed in February 2004. The research team, drawn from three leading universities and from IPD, was supported by a strong IPF steering group.

The broad aims of the project were to provide an overview of research on liquidity in real estate markets and to provide preliminary empirical analysis of liquidity and turnover in property and other capital markets. The project was intended to act as a foundation for further research studies on property liquidity in the future.

We examined four aspects of liquidity:

- What is liquidity and how do concepts of liquidity from other financial markets fit commercial real estate?
- What evidence is there on the relative liquidity of different asset types?
- How long does it take to sell a property investment and what causes delay?
- How does liquidity affect the riskiness of investing in real estate?

We conducted a literature review, analysed the property sales process and transactions and built statistical models. The main findings are set out below.

What is liquidity?

Most people in property have an 'intuitive' understanding of liquidity. However, examination shows that usage varies. Liquidity is a complex, multi-dimensional concept, which captures much more than the time taken to execute a trade. Liquidity also includes:

- the costs, direct and indirect, of trading;
- the risk and uncertainty concerning the timing of the sale;

- the risk and uncertainty concerning the achieved sale price;
- the trading volume and frequency; and
- the price impacts of the act of sale and purchase.

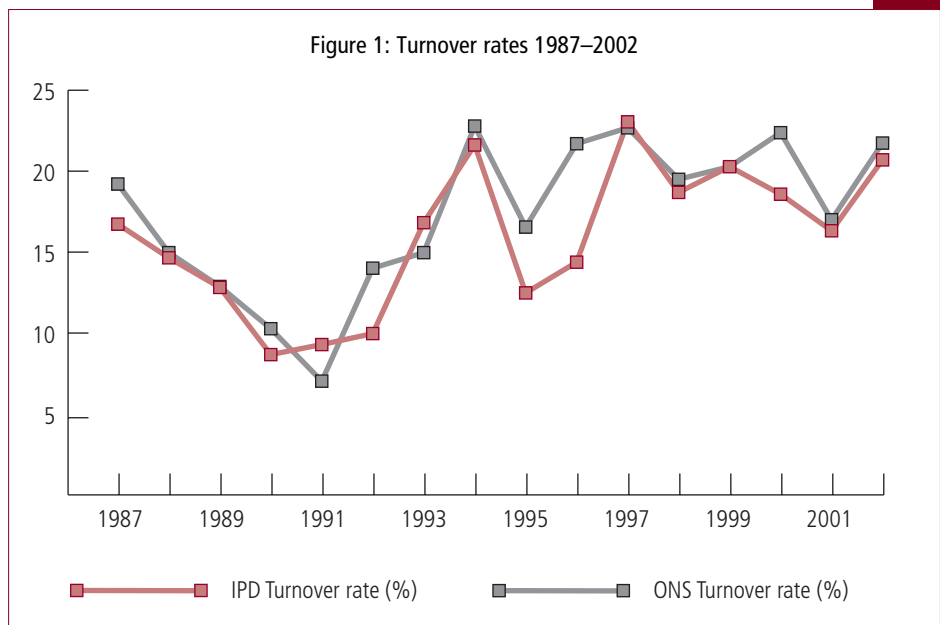
The importance of these dimensions of liquidity will vary across asset classes and, within property, by type of building, sector and location. Importance will also vary according to market conditions. It is, thus, not possible to have a single, portmanteau definition of liquidity.

values. Large investors shifting their property weightings may influence prices.

Property prices are sticky and change slowly. A major difference in direct (private) property markets, however, is that adjustments to changes in supply and demand occur as much through transactions volume and time to trade as through shifts in values and prices.

A key issue in liquidity studies is whether there is a liquidity premium – that is, whether or not investors are compensated for the costs and uncertainties of trading. Evidence for stocks suggests that there may be a

Figure 1: Turnover rates 1987–2002



From bond and equity market literature, the emphasis is on pricing impacts of trading. Five main aspects of liquidity are used to

characterise markets: the cost of liquidating a portfolio quickly; the ability to sell without affecting prices; the ability of prices to recover from shocks; the costs of selling now rather than waiting; and transaction costs – the direct and indirect costs of trading.

These apply largely to public traded markets where depth and the presence of market makers ensure that adjustments to supply and demand occur through the price mechanism. They are relevant to investment property nonetheless.

Property's high transaction costs drive longer holding periods (which, in turn may lead to inefficient portfolio allocations). Given thin trading, a fund attempting to sell out of property may suffer losses due to forced sale

return premium for shares that are systematically more illiquid and when markets are particularly illiquid.

Transactions activity

The rates of sales and purchases provide invaluable information on the relative liquidity of different assets and different market conditions. There is no single ideal database for analysing commercial property transactions. The research used data from the Inland Revenue, ONS, IPD, ARAS and Property Data to analyse UK direct market activity. We also examined activity in indirect property markets and in other countries.

Activity rates in the commercial, investment grade market are considerably higher than for smaller private deals and in the residential markets. Inland Revenue figures suggest that around 5% of the non-residential stock turned over in 2002. Institutional turnover

was around 12–15% suggesting a median holding period of around six to seven years.

Activity levels are cyclical but have been trending upwards from the early 1990s at around 3% per annum (see Figure 1). Much of the variation in activity is explained by stock market yields and property market returns. Surprisingly, it is hard to see a significant impact from stamp duty increases – although this may be masked by the increased use of special purpose vehicles, in part a response to stamp duty changes.

Activity varies by lot size, by type of property and by geography. Many of the variations would be expected: high value property trades less frequently; lower lot sizes (standard shops, smaller offices) are more liquid. There are surprises, however. In particular, Central London offices trade less frequently than other segments. The total volume of activity is high – providing transparency and comparable information – but the rate of sale is lower than in regional markets.

UK commercial property trades more frequently than property in other countries in Europe – in 2002, the transaction rate was double that found in France and the Netherlands. In indirect markets, UK property companies show greater liquidity than US REITs or Australian Listed Property Trusts – an interesting finding given the prospects for a UK REIT structure. Since these tax transparent vehicles are aimed at retail investors, buy and hold strategies may be more common. For similar reasons, limited partnerships and PUT units trade less often than direct property holdings.

Time on the market

The ability to enter and exit the property market depends on how long it takes to buy or sell. In the research, we examined the sales process through three case studies – a major property company and two institutional investors, a life insurer and a pension fund, both with large property portfolios. Interviews were used to examine the sales process, and then around 200 sales records were used to estimate typical times on the market.

All three funds applied a pre-sales filtering process. Properties that had a high risk of failure to sell were not brought to market. Once a decision to sell had been reached, most finally sold: there were few abortive sales. However, many factors could delay the sale. These included solvable problems such as tenant disputes, imminent rent reviews and lease terminations and unexpected events – tenant insolvency or default, for example.

Most delays occurred at the due diligence stage. Factors included the discovery of inherent problems, changes in market conditions or shifts in the purchaser's intentions. It was felt that use of debt by the purchaser increased the likelihood of delays. Properties that were 'ready for sale' were less likely to be affected by delays, but there was a cost in maintaining all stock in such a state. It was suggested that periodic valuations might not always fully reflect the true saleable condition of the property. This, in turn, could cause delay if the offer price was below the prior valuation.

The average time from formal marketing to completion was nearly 10 months. This figure is misleading as the distribution of sales is heavily skewed, with a small number of sales taking a very long time. The median time to achieve a sale, at 190 days, is a more representative figure. That still represents six months to sell the typical property. The longest stage is the period from initiation to heads of terms (median 88 days). Due diligence averaged 62 days, while the typical time between exchange and completion was 19 days. These averages hide considerable variation in time on the market.

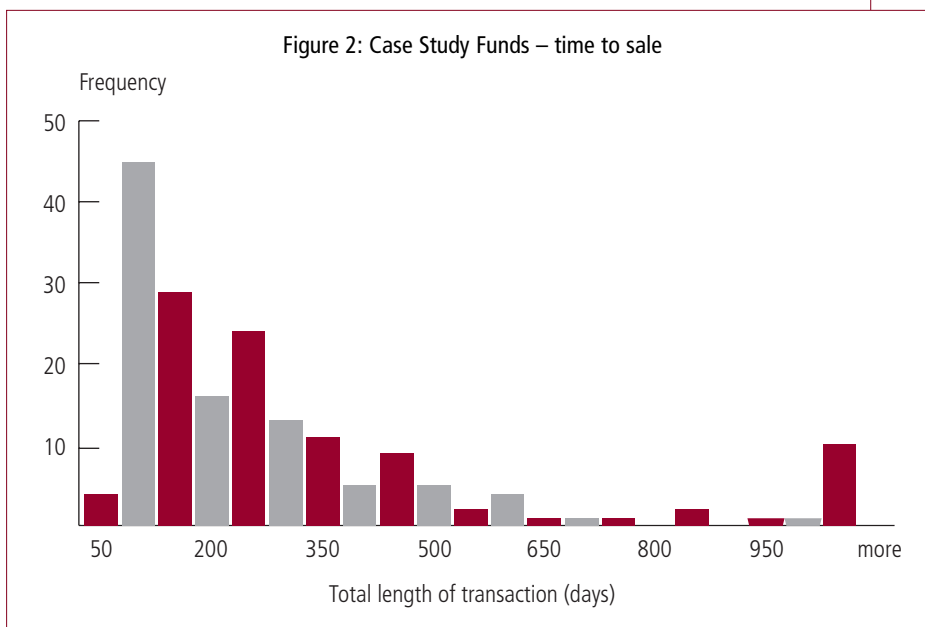
Liquidity and risk

The length of the sale process and uncertainty as to the timing of sale adds an extra layer of risk for an investor contemplating a property acquisition. This risk in entering the market – the ex ante risk – will be larger than backward looking risk measures reported by IPD and others. Valuation-based returns do not consider possible delays and losses in realising capital value, while the sale data is known with certainty for transaction-based returns.

It is possible to model this additional risk facing the new investor. To do this, we need information on the distribution of times to sale, data on the volatility of property values and the expected holding period of the investor. The additional risk factor will depend on these three variables:

- the shorter the holding period, the greater the additional risk;
- the more volatile the asset returns, the greater the additional risk; and
- the longer the time to sale, the greater the additional risk.

Figure 2: Case Study Funds – time to sale



The sales process, then, is lengthy and complex. Although many properties sell readily and (comparatively) swiftly, unexpected 'shocks' can cause major delays both before and after heads of terms. Streamlining seems to have reduced the final settlement period somewhat.

For highly liquid public-traded assets, where time to sale is very short, the additional risk is trivial. For an illiquid asset with a long holding period and potentially lengthy time to sale, the extra risk factor may be large.

Using the time on market data from the case studies and IPD market volatility, an investor with an expected holding period of seven

years and an asset with an expected time to sale of six months faces a risk factor of 1.38. Ex ante risk is 38% above the conventional reported measure. For a five year holding period and eight months to sale, the risk factor rises to 1.98 – ex ante risk is doubled. For longer holding periods and easily sold properties, the additional risk is minor.

These preliminary findings are important in understanding the nature of risk – particularly in the context of finite life private equity vehicles. The research shows that the additional risk factors significantly reduce as an investor diversifies by building a larger portfolio.

An agenda for the future

The IPF Liquidity Study was preliminary in nature and intended to act as a springboard for future work. In order to improve our understanding of liquidity, a number of practical tasks could be pursued:

- regular transaction reporting by the major data providers;
- improved data on the size of the investible market;
- improved data on activity levels in indirect property vehicles; and
- collection of data on the time taken to buy and sell property.

This would greatly improve the data and aid decision-makers and analysts. It would also enable more focused research into commercial property market liquidity. Possible future research questions include:

- Can we explain variations in transaction activity?
- Are certain types of property more likely to be traded? If so, why?
- How do market structures and attitudes influence the sales process?
- What are investor expectations about holding periods and risk?
- What are the costs and penalties associated with illiquidity?
- Is there a property risk premium for illiquidity?

Some of these tasks are relatively easily accomplished. Others require greater industry cooperation, development of improved datasets or lengthy, resource-intensive research. We hope – and believe – that the IPF Liquidity Study will form an important foundation for this developing research agenda.

Full results of the Liquidity in Commercial Property Markets project are set out in five working papers:

WP1: Defining Liquidity in Property

WP2: Deconstructing the Transaction Process

WP3: The Analysis of Transactions Evidence

WP4: Liquidity Risk and Real Estate

WP5: Liquidity – Findings and Recommendations

The five working papers are available from IPF (ipfoffice@ipf.org.uk, 020 7334 3799) price £150. Alternatively, a copy of WP5 only is available, price £50.

This report was funded and commissioned under the auspices of the IPF Educational Trust and IPF Joint Research Programme. The programme is funded by a cross-section of 16 businesses, representing key market participants. The IPF Educational Trust and the IPF gratefully acknowledge the contributing organisations:

Capital & Regional, Donaldsons, Grosvenor, GVA Grimley, KPMG, La Salle Investment Management, Land Securities, Lovells, Morley Fund Management, Nabarro Nathanson, Quintain Estates & Development, Scottish Widows Investment Partnership, SJ Berwin, Strutt & Parker, Investment Property Databank, and Prudential Property Investment Managers.

The IPF congratulates the research team on an excellent project that lays the foundation for an ongoing research programme into liquidity in commercial property markets.

The IPF will commission further research into this important area. This report is the start of a structured research programme to give a deeper understanding of property liquidity and the implications for property as an asset class.

The IPF invite comments on the findings and the recommendations for future research. Please address comments or suggestions to Charles Follows, Research Director, IPF, 3 Cadogan Gate, London SW1X 0AS. cfollows@ipf.org.uk 0207 696 1649

The Liquidity Research Team

Dr Shaun Bond	University of Cambridge
Mark Callender	Investment Property Databank Ltd
Prof Neil Crosby	University of Reading Business School
Soosung Hwang	Cass Business School, City University
Prof Tony Key	Cass Business School, City University
Prof Colin Lizieri	University of Reading Business School
Patrick McAllister	University of Reading Business School
Prof George Matysiak	University of Reading Business School
Prof Charles Ward	University of Reading Business School

The IPF Steering Group

Stephen Palmer	Seven Dials Consulting
Richard Barkham	Grosvenor
Charles Follows	IPF
Paul McNamara	Prudential PIM
Stuart Morley	GVA Grimley
Francis Salway	Land Securities

Integrating Sustainability Policy

Interim findings of the Sustainable Property Appraisal Project

Background

There is currently little in the way of practical tools and advice to assist the property investment community in aligning issues of sustainability with economic return. As yet there is no established means of even identifying or classifying sustainability in property, the first steps required in any attempt to assess its impact on property worth. The Sustainable Property Appraisal Project was set up to begin to address this problem by providing practical tools with which the property investment community could begin to examine what sustainability, socially responsible investment, (SRI) and corporate social responsibility (CSR) mean for property investments.

Aims and objectives

The Project identified the main investor requirements as being the ability to:

- a) predict and model future performance to include sustainability criteria – so that property can be evaluated alongside other asset classes; and
- b) ensure performance.

This requires appraisal tools and indices tied in to industry-wide existing models. It was clear that as any change in the behaviour of the markets must be driven by economic viability or advantage, sustainability must be linked to property worth if it is to be reflected in the appraisal process.

The main objectives of the Sustainable Property Appraisal Project are therefore as follows:

- The development of an analytical tool that will allow sustainability criteria to be reflected in the appraisal of commercial buildings;
- The application of the tool to a sample range of buildings to reveal under or over valuation within the appraisal; and
- The development of a framework to act as a pilot for a property index.

The project has been managed in three distinct stages:

Stage 1 – identification of a set of sustainability criteria whose impact on a commercial property can be related directly to worth (this stage is now complete although the sustainability criteria continue to be refined).

Stage 2 – the development of a property appraisal tool that would be familiar to industry, accepted by valuers/appraisers and

sufficiently flexible to accommodate the sustainability criteria. The research team adopted the RICS Calculation of Worth model as the most appropriate for this element of the work.

Stage 3 – the development of a framework for a pilot Sustainable Property Investment Index.

The sustainability criteria

Through literature search and consultation carried out in Stage 1, the following sustainability criteria have been identified:

Accessibility – changing fiscal and regulatory transport policies make flexibility in terms of access crucial to property sustainability under the three heads of the triple bottom line. This includes public transport, local pedestrian access, private transport and adequate parking provision. The importance of each type of access changes across property type.

Adaptability – the potential for a property to adapt to fulfil the changing requirements of the existing user, a new user or a different type of user, will affect investment performance over time.

Building quality – the quality of a building will impact directly on its ability to maintain occupier appeal over time and the cost of refurbishment. A very high specification property may require more frequent and more expensive refits and refurbishment than a lower spec design using high quality materials.

Contextual fit – the extent to which a property is appropriate for its surroundings and provides a successful point of interaction with the local community.

Energy efficiency – property consuming a higher than average level of energy in use will fail to support the owner's and/or occupier's CSR policy and exposes the owner to the risk of retrofitting to higher energy standards. The introduction of energy labelling of commercial buildings in 2006 will heighten occupier, investor and public awareness of this issue.

Occupier – the potential for an occupier with a particularly poor corporate reputation to reduce the liquidity of an investment.

Occupier satisfaction – in a market environment in which tenant power is increasing, the efficacy with which a property supports all aspects of the occupier function is increasingly crucial to its lettable.

Pollutants – increasingly stringent environmental legislation makes a property's

potential to pollute significant. This may impact on industrial property more often than other property types but is also relevant to air conditioned buildings which may require more rapid upgrading of plant.

Waste and Water – the provision of facilities for waste management and recycling is increasingly important, particularly to retail occupiers affected by the regulation of packaging waste and rising landfill taxes. It is also a standard feature of most CSR policies as is the efficient management and use of water.

Development of the model

The RICS Calculation of Worth model channels all the characteristics of a property investment through the four key variables:

- rental growth
- depreciation
- risk premium
- cash flow

By linking each of the sustainability criteria with one or more of these variables it is possible to translate the sustainability of a property into an impact on worth. Through focus group consultation with the investment appraisal and valuation consultancy community and through subsequent pilot testing of the model, the research team linked the sustainability criteria to the calculation of worth variables as set out in table 1 opposite.

Testing the model

Having developed a working model, the next stage of the research has focused on testing it using a range of properties. The pilot study below demonstrates how the model is working and the issues raised.

Pilot study 1: Shopping centre

Inspection of the first shopping centre revealed the following characteristics considered to be relevant to the sustainability appraisal:

- good transport links and parking, outside congestion-charging zone;
- no obvious alternative use but risk of failing as a shopping location is limited;
- in need of up-grading, no air conditioning, limited ventilation;
- performs well in terms of energy efficiency;
- serves large local community & commuters; and
- limited recycling facilities as space is limited.

Table 1

Sustainability factor	Conduit
Building adaptability	risk premium, cash flow, rental growth, depreciation
Accessibility	rental growth, depreciation
Building quality	rental growth, cash flow, depreciation
Energy efficiency	rental growth, risk premium, cash flow, depreciation
Pollutants	rental growth, risk premium, cash flow, depreciation
Contextual fit	rental growth
Waste and Water	rental growth, cash flow, depreciation
Occupier satisfaction	risk premium
Occupier impact	risk premium

Two calculation of worth appraisals were carried out, one reflecting the standard factors expected to be reflected in such an appraisal, the second also including the sustainability criteria. The performance of the property under each criterion was examined and where performance was considered to vary from an expected norm for the property type, the selected variable was changed. In this case, for example, the energy performance of the building is good compared to other shopping centres within its class. This may make the property more attractive to other investors with a strong CSR commitment and the risk premium was consequently reduced by 10% (making a change of 53 basis points in this case). The variables and NPV of the two appraisals produced are presented in Table 2.

The results show that it is possible to reflect sustainability within the appraisal process using the methodology developed through this research. However, they also generate further questions. In particular the research now has to focus on developing an understanding of the extent to which each variable should be altered in order to reflect appropriately a property's performance under each sustainability criteria. In the example presented here, the risk premium was reduced by 53 basis points, but was this an appropriate response to the factor in question?

It is also clear that each sustainability criteria impacts differently according to property type. Retail property may be more sensitive to the provision of waste management facilities than office property for example. This leads on to a consideration of a weighting system for the sustainability criteria relating to the property type and use. Some criteria are more significant than others in terms of impact on worth, reflecting the changing legislative,

economic and fiscal context within which the markets operate, but this will inevitably change over time. All these issues will have to be explored through the next stages of the research.

Next stages

From first inception, the project has been highly industry focused and this ethos will guide the means through which these issues are resolved. Further industry consultation is currently being organised to look at, in particular, the significance of the sustainability criteria, both from the investor and occupier perspective. Similar work will also focus on the parameterisation issue. The fieldwork will continue and the results will be presented to industry for examination and feedback.

The appraisal model will be refined, the objective being to develop a robust tool designed using commonly available software, such as excel, that can be downloaded from a website and used by industry to produce repeatable, reliable results. Support materials will also be produced to ensure a standard interpretation of the sustainability criteria and their relevance across property type.

The final stage of the research focuses on the development of a framework for a pilot index. This is being done in consultation with IPD, and it is envisaged that the framework will be based on their existing data collection system. This would enable the pilot index to be populated with property drawn from the existing IPD index, ensuring compatibility and comparability with an industry standard performance benchmarking system. The full development of the index is beyond the scope of the existing project. However, it is hoped that funding will be forthcoming to continue work into this area given its significance in enabling the property

IPF Debates Lease Code

continued from front cover

and funding institutions will reflect more flexible lease terms in the financial offer. For some occupiers long lease are the occupational strategy of choice.

In terms of property, financing more flexible lease terms will force banks to focus more on underlying property characteristics rather than purely on the income credit worthiness of the tenant.

IPF are committed to working with Government and the industry to enlighten the debate regarding flexibility and choice in leasing practices and is now planning an informed and well thought out response, based on robust research, to the findings of Reading's Interim Report. This work will also assist the industry to respond to the ODPM's consultation paper on lease reform. The research into the subject will embrace both the occupier and investor view and will be underpinned by the IPF's mission to improve the awareness, understanding and efficiency of property as an investment, by undertaking research and encouraging discussion and debate. The IPF will do all it can to enable high quality information is available to underpin the debate.

Table 2

Variable	Standard appraisal	Sustainable appraisal
Rental growth	2.50%	2.00%
Depreciation	1.00%	0.90%
Net rental growth	1.50%	1.10%
Risk free rate	5.00%	5.00%
Risk premium	5.35%	4.85%
Discount rate	10.35%	9.85%
Exit yield	8.85%	8.75%
NPV	81,655,104	75,640,337 (-7.37%)

investment community to analyse performance accurately and using benchmarks similar to those developed for the equities investors.

These are the interim findings of a Kingston University research project part funded by the IPFET. Project partners include DTI, Drivers Jonas, USS, IPD, Prupin, Boots Plc and Forum for the Future.

Education 2004

A busy year for the IPF

Whilst the IPF's Advanced Education Programme is certainly our flagship product, there are still a range of other educational activities we offer to members and others operating in the property investment market.

Lectures, workshops & member only events

Lectures and workshops continue to be our most popular output. Over the last year, 27 sessions were run in London alone and feedback continues to show that participants are on the whole very satisfied with the content of the programme and also the format and timing of our events. We've also put in increased effort to assist the three IPF regions deliver their educational events in the North West, Midlands and Scotland.

Free member-only events are run regularly and more recently we have been collaborating with other organisations – including the Society of Property Researchers, the Institute of Actuaries, the Institutional Investor Group on Climate Change and even the Society of Financial Advisors – to deliver these. And, recognising that there are also a huge number of conferences and events being run by other organisations, where we feel a particular session meets our quality thresholds and will be of interest, we have negotiated special rates discounts for IPF members.

Senior seminars

For some time we have been considering how we might provide training for senior and specialist property industry managers. In many cases, the people who can best inform and stimulate such managers are those engaged in similar activities at other organisations. Our aim therefore is to deliver a programme of 'workshops' where senior members can discuss the issues and challenges they face and, through discussion and debate with peers, learn new methods and ideas with which to approach them. November 2003 saw us run a pilot 'round table' discussion on the topic of 'embedding environmental consciousness within property organisations'. Approximately 12 participants with responsibility for developing environmental and community consciousness within their organisations took part. The outputs have been written up and published. They open up a number of avenues for future follow up sessions and various other potential initiatives.

Guide for Financial Advisors

Early in 2003, we identified a need to educate IFAs in property investment following the FSA's announcement that it intended to review retail property funds. Seven Dials Consulting were commissioned by us to develop an education programme and funds were raised from the IPF Educational Trust, the British Property Federation and the RICS. With guidance from an Advisory Group, Seven Dials Consulting produced a comprehensive handbook which is available to download from the IPF website free of charge and also in hard copy. We have also run a series of workshops around the country in partnership with the Society of Financial Advisors and have secured good coverage in a range of journals outside the mainstream property trade press – Money Management, Money Marketing, Financial Adviser and Investors Chronicle. So far, there have been 4,450 downloads of the PDF from the IPF's website and 2,985 from the RICS. 1,200 bound copies have been distributed across the financial advisory community and property industry.

FSA

Going forward, we are looking at ways to work more closely with the FSA. A series of FSA workshops have already been run for the members and material is also available on the website, but this is crucial area and we will be looking to the needs of the membership as the market continues to evolve.

Property derivatives

Earlier this year, it was decided that the Property Derivatives Users Association (PDUA) would become incorporated under the IPF umbrella. The PDUA's objective is to promote and support the development of a deep and liquid market in property derivatives and we plan to run further workshops on the topic to provide the support needed by those interested in engaging in this new market place.



International property investment course

We are also launching a brand new, three day international course following the successful format of our Advanced Education Programme. As investment strategies become more global, this module provides a framework for property professionals, who have experience of their domestic market, to develop an appreciation of how to develop an international property investment strategy as well as understand the associated risks and rewards. It will provide an understanding of the contextual differences between key international real estate markets; give an overview of current trends and themes in international markets; and provide an insight into performance measurement issues relevant to international investment. Led by Ben Sanderson of Prudential Property Investment Managers, the module is designed to help qualified professionals working in the international markets, from both the UK and Europe, to build the expertise to develop an international property investment strategy. If you are interested in more information either visit the IPF website or call the Programme Office on 01223 477150.

You can find more information about all our educational activities in the IPF's monthly enews and on www.ipf.org.uk. However, we are always on the look out for new ideas – particularly suggestions for topics on the lecture and workshop programme. Feel free to let us know of any suggestions you may have!

IPF Diplomas Awarded

Mark Cooper reports

Education is crucial to the development of property as an asset class and promoting professionalism within the industry. In May, the IPF was delighted to welcome another 12 diplomats who successfully completed all modules of the Advanced Education Programme (AEP), bringing the total to 65 since the programme began in 1999 with over 300 students taking part. Students have come from companies such as British Land, Cushman & Wakefield Healey & Baker, Jones Lang LaSalle and Nabarro Nathanson. This year's 12 will be ambassadors as well as diplomats, showing the level of knowledge and professionalism that is present in the property investment business.

based skills. It's been a tough year, but well worth it. Some of the knowledge I gained during the course I have already used in my day job."

"The course was a serious intellectual challenge, as well as being hard work. You have to be on top form to take in the course and have plenty of homework to keep you amused – and you can't afford to get behind with it." Of the seven modules, Tyrrell says he probably got most out of the accounting and taxation module. "I didn't know anything at all about property tax so it was very useful. I never believed accounting and taxation could be so interesting!"

- Advanced Property Investment Appraisal
- Advanced Property Finance and Funding
- Advanced Portfolio Management

This year diplomas were awarded to:

- Susan Groat, Miller Developments
- David Fleetwood, Standard Life
- Nigel Pickup, Legal & General
- Jeremy Titchen, Grosvenor
- Christine Clarke, McArthurGlen European Development
- Ben Bridge, ING Real Estate
- Nick Tyrrell, JP Morgan Fleming Asset Management
- Rachel Sanders, NBW Crosher & James
- Lorcan Mooney, Standard Life
- Stephen Ball, Hatfield Philips
- James Foley, Ashurst
- Cameron Murray, Scottish Widows

Ian Marcus (right) presents Nick Tyrrell with his Diploma



IPF chairman Ian Marcus, who hosted the awards ceremony at CSFB's offices in Canary Wharf, said: "The AEP has gone from strength to strength. Everyone who has followed the course has spoken about its merits and the value it has added for them."

The AEP is an advanced programme; those taking part are not the young and callow, but serious professionals looking to broaden and deepen their knowledge. For example, this year's diplomats include Nick Tyrrell, head of property research and strategy at JP Morgan Fleming Asset Management and Grosvenor director, Jeremy Titchen.

Tyrrell, who was awarded the John Whalley prize for performance in the diploma, spent many years as an economist before moving into property. He says:

"I wanted to get some serious, property specific knowledge to add to my broader-

The AEP is run on the IPF's behalf by Cambridge International Land Institute with students taking three days per module away from their day job – as well as homework and exams, of course! The modules, all designed by investment specialists, can be taken individually as well as a complete course leading to the diploma. Students are supported with online resources, which will be expanded for the 2005 course. The seven modules, soon to be augmented by an international property module, are:

- Accounting and Taxation for Property Investors
- Introduction to Investment Valuation and Portfolio Theory
- Financial Instruments and Investment Markets
- Property as an Asset Class

ADVANCED EDUCATION PROGRAMME

Timetable 2004/05

Property as an Asset Class

11, 12, 13 October 2004

Accounting and Taxation for Property Investors

22, 23, 24 November 2004

Introduction to Investment Valuation & Portfolio Theory

20, 21, 24 January 2005

Financial Instruments & Investment Markets

21, 22, 23 February 2005

Advanced Property Investment Appraisal

25, 26, 27 April 2005

Advanced Property Finance & Funding

13, 14, 15 June 2005

Advanced Portfolio Management

15, 16, 22, 23 September 2005 (tbc)

Passage to India

Dr Richard Barkham reviews a recent IPF lecture

The post war period has been the golden age of the service sector. Now, according to some commentators, intense 'manufacturing style' rationalisation is on the horizon. Apparently the UK is set to lose swathes of service sector jobs to low cost locations in the Asian 'tiger' economies. Business process outsourcing (BPO) may have not attracted such intense political debate in the UK as it has in the US, as overall employment has increased in the last three years rather than fallen, but a steady stream of corporate announcements and the publication of a number of high profile reports has begun to worry the market. A key report by Deloitte Research states that 230,000 finance jobs will be lost by Europe in the next five years'. Given the UK's relative strength in financial services there is growing concern in the property industry that BPO will result in loss of take-up in the office sector.

On 24 March, an IPF seminar entitled 'Passage to India' considered the potential impact on the UK office market of service sector outsourcing to India. The four speakers were Manish Chande, Geoff Marsh, Phil McCann and Richard Tice. Manish is well known as the former head of Land Securities Trillium but he is also a director of Office Tiger a business service provider employing 1,500 people in Chennai (formerly Madras). As the founder of Applied Property Research, Professor Geoff Marsh has a track record of being ahead of the game in property research: he set up India Property Research, in Mumbai, in 1995 and for eight years has closely observed the development of outsourcing to India. Phil McCann of the University of Reading is Europe's leading location economist and has recently been commissioned by the Corporation of London to examine the impact of outsourcing on the City. Richard Tice, Chief Executive of Sunley Holdings has outsourced some of his own company's accounting functions to India.

Manish Chande urged that we should not underestimate the rate of growth of business process outsourcing or the sophistication of the infrastructure emerging in India (amongst other developing nations). Off-shore service providers may have started in low skill services in customer care (call centres), payment services and administration but the industry is rapidly trading 'up the value chain' to provide highly competitive services in technical support, finance and accounting, human resources and complex transaction management. The evolution of Office Tiger, detailed in Figure 1, is indicative of how the market is growing and maturing. Manish

made the interesting point that, by following sports teams and the weather in places like London and New York, Indian operatives, many with MBAs, can provide a service that feels as if it is located 'just down the road'.

By providing a case study of how a medium-sized British property company handled its own outsourcing project, Richard Tice made, if anything, a stronger point about the threat to the UK service sector. Sunley Holdings is a family business with two offices, 45 employees and a turnover of £60m. By outsourcing 60% of the accounting function, the company has saved £100,000 a year and improved the quality of work. If a medium-sized property company can make these savings, the potential gains for transaction intensive industries such as financial services, healthcare, retail and transportation are surely much greater.

Moreover, as Phil McCann pointed out, off-shoring is not just about cost saving, it is about re-engineering the corporation. Having the opportunity to out-source low value added activity allows companies to rethink what they are doing and concentrate on what they do best. From the perspective of UK PLC off-shoring is potentially a good thing.

Recently, the economic benefits accruing to the UK from off-shoring of service sector activity have been examined in depth by Oxford Economic Forecasting² (OEF). They include:

- Reduced cost base for UK-based companies;
- Higher profits available for investment;
- Downward pressure on inflation (service sector prices have been rising faster than general prices in recent years);
- Stimulus to shift resources into higher value added activities and boost overall growth; and
- Increased exports to newly prosperous developing nations.

OEF does state that, although the oft-quoted statistic of 60% growth in off-shoring business in India in the last two years is correct, it is growth off a low base: the total number of jobs in the BPO industry in India is only 150,000. By contrast, the UK service sector has put on 700,000 jobs in the last three years.

For all this, the feeling of the seminar was that off-shoring does have implications for the UK office sector. Geoff Marsh said: 'In

London, India is a minor issue compared with structural oversupply. India is however important in local markets, bearing in mind that rents are very responsive to marginal changes in vacancy rates.' All of the UK's regional office markets have, over the last 20 years, benefited from domestic off-shoring. Large financial and business service firms have shifted 'back-office' functions from London to lower cost locations such Reading, Bristol, Birmingham, Manchester and Glasgow whilst retaining 'higher order' functions in the metropolitan core. Constant improvements in ICT have facilitated the process. Abundant skilled labour (India produces a million graduates a year and

Figure 1

Evolution of Office Tiger
1999 Office Tiger is established
Five Service Lines: <ul style="list-style-type: none">– Research & Analytics– Electronic Content Services– Document Management Services– Electronic Pre-Press– Finance & Accounting
4 Years Later: <ul style="list-style-type: none">– Employee base: 1,500 of whom 400 hold MBA, Chartered Accountancy and similar qualifications.– Location: Headquartered in NYC, 2 production facilities in Chennai, India and a back-up facility in Kuwait.– Revenues: Quadrupled in size between 2001 to 2002 and have quadrupled in 2003.– Clients: Seven of the largest investment banks; four of the five largest financial printers in the US; half of London's major law firms; top management consultancies and the big four accountants.

150,000 IT specialists), low wage rates (Indian graduate salaries in dollar terms are 13% of UK graduates³) and ever cheaper telecommunications links (ISD calls to India are 80% lower than they were in 2001) provide strong incentives for firms to move jobs from low cost locations in the UK to low cost locations in the third world. So provincial markets, especially city centres, where vacancy rates have been above 7% for most the last decade would seem vulnerable. Nor may London, in particular outer London, be immune. For all that inner London specialises in high value added financial services, Greater London employs 1.4m people in financial and business services (25% of the UK employment in this sector). Many, perhaps the majority of these, will work in areas increasingly capable of being outsourced.

What are the implications for the office sector in the UK, which, at the moment, looks poised for a cyclical upswing? In the short term, probably not much. Overseas outsourcing is new to most UK service companies and it will take time for them to re-engineer themselves. In the medium term, we should expect, all other things equal, rental growth to trend down slightly and investment yields to increase.

One prominent head of research who has followed this trend since it started in the mid-1990s thinks that the UK could lose as much as 100m sq ft of office demand in the next 10 years, particularly in provincial markets. Preliminary research by Grosvenor based on adjustments to the trend rate of financial and business service growth suggests that 50m sq. ft of take-up could be lost. The trouble with this type of analysis is that it fails to take account of the emergence of

new sectors and lines of business that will offset jobs lost by rationalisation. For instance, manufacturing has shed 2.9m jobs in the last 23 years but the UK economy has gained 3.2m.

Nevertheless the process of structural adjustment can be very rough and this has implications for rental growth and pricing in the medium term. There is no real certainty as to which sectors will emerge to drive take-up and which locations will win out. Markets that have a high proportion of low-level office functions and call centres look vulnerable.

Finally, we should not ignore the very long term implications of off-shoring for the development of UK cities. At the end of the 19th Century, UK cities were manufacturing centres; at the end of the 20th Century they were service centres. Off-shoring may be the

start of a process by which UK cities reinvent themselves again. It is interesting to speculate on which industries will drive cities forward over the next 20 or 30 years, but it may be a mistake to rely too heavily on the traditional service sector.

¹ Deloitte Research (2003) 'The Cusp of a Revolution: How off-shoring will transform the financial services industry'.

² OEF (2004) 'Off-shoring: How big and issue?', Economic Outlook pp9-15, Spring., Oxford
Other reports that have dealt with the positives are; McKinsey Global Institute (2003) 'Off-shoring: Is it a Win-Win Game?', August, San Francisco; NASSCOM (2003) 'The Economic Impact of Global Sourcing on the US 2003-2010', Evaluate; HSBC (2003) 'Off-shoring: the key economic issues' World Economic Watch, November

³ 86% in Purchasing Power Parity terms. Dollar terms are appropriate for measuring cost differentials.

Property Global Investment Performance Standards

Mark Cooper reviews recent IPF lecture

Property fund managers will have a whole new set of regulations to deal with when Global Investment Performance Standards (GIPS) for property are introduced in January next year.

GIPS – which are a form of self-regulation rather than government legislation – have been developed by The Association for Investment Management and Research (AIMR) and are already in place for both equities and bonds. They are used by institutional investors around the world to choose fund managers.

IPF members who attended a lecture in May, got the lowdown from a trio of professionals concerned with investment standards: Gary Neale, head of performance measurement at Morley, IPD founding director, Ian Cullen and ING REIM director, Simon Latham. Protego chief executive, Iain Reid, chaired the event.

GIPS are used to produce balanced performance measures which allow institutional investors to compare accurately the performance of different managers and funds. The standards prevent fund managers

from cherry-picking their best fund or being selective over timescale to improve apparent performance. Although the measures are voluntary, fund managers who do not use them will be at a severe disadvantage in pitching for business, as more and more investors insist on using them to get "apples with apples" comparisons between investment options.

Overall GIPS ratings come from 'composites' – individual funds or groups of similar funds that are aggregated according to GIPS requirements to give a single return figure.

Gary Neale said the costs involved would vary, but would only be significant where a fund manager was not already producing significant amounts of performance data.

Ian Cullen said a number of property-specific issues needed to be considered; the cost and subjectivity of valuation, assimilating the effect of active portfolio management and crucially, the definition of discretion.

"Uniquely among asset managers, property people almost never have total discretion,"

he said. "The purchase of a £100m shopping centre, for example, will always involve approval from the client."

Simon Latham said he believed the standards would not be hard to apply, but that client requirements were already more sophisticated. He pointed out that standardisation of valuations was an important part of GIPS, but that valuation standards and methodology varied across the world.

The IPF will look at updating the Property Performance Record it produced in 1999 to take account of the new requirements. It has set up a committee comprising Iain Reid, Ian Cullen, Andrew Walker of Watson Wyatt, Anne Lucking of LaSalle Investment Management, John Cartwright of Prupim, Bill Hughes of Deutsche AM and IPF research director, Charles Follows.

The committee will report back to members in the autumn.

Copies of the presentations given at both of these IPF lectures are available to download from the IPF website. Please visit the members only area of the website, then click to the resources section and access the papers and reviews.

Doing Deals

Analysis of the Werretown Transaction by British Land



Peter Clarke

Securitisation is, in principle, a simple concept. It involves the packaging of an income stream, or income streams into bonds that can be sold to the public markets. In practice however, it can be rather more complicated and take many weeks, if not months in the execution.

In January 2001, we set out to securitise the income from a portfolio of superstores owned by British Land and let to Sainsbury's Supermarkets. The 'Werretown transaction', as it came to be known, closed on 20 June 2001, nearly six months later.

The legal structure of the transaction followed that which we had first used in 1999 to securitise income from the Broadgate complex in the City of London. The Broadgate transaction utilised the income from a number of high quality tenants across 13 separate buildings. The default risk was spread, as there were a number of buildings and no one tenant represented more than 15% of total income.

The major distinction between Werretown and Broadgate was that Werretown was secured on a single credit (Sainsbury's), with no tenant diversity to spread the default risk. This should have meant that any bonds issued would be reliant on Sainsbury's income and could therefore only enjoy the same credit rating as Sainsbury's itself. However, a unique feature allowed 40% of the bonds in Werretown to be issued with an AA rating, a higher rating than the A rating enjoyed by Sainsbury's at the time.

This was possible because there was considerable diversification in the properties themselves. There were 35 superstores spread across England and Wales. The largest property was less than 5% of the total portfolio value and no one region represented more than 20% of the total (Table 1). To persuade the investors to buy the bonds, it was necessary to demonstrate that the properties had an intrinsic rental value, even in the event that Sainsbury's ever became insolvent.

CB Hillier Parker was instructed to value the properties. As well as producing a standard open market valuation, based on the lease to Sainsbury's, CBHP was also instructed to provide vacant possession values for the stores. It was these vacant possession values that underpinned the analysis of the properties' intrinsic worth.

In the event of a Sainsbury's default, we were firmly of the view that British Land, as equity holder, rather than a liquidator or receiver, would be best placed to re-let the properties. British Land has a substantial investment in the properties, which we would wish to protect.

UBS Warburg was instructed to arrange the transaction and provide interface with the rating agencies. This required the building of a model of the cashflows, for both the leases and the proposed bonds. The rating agencies required that this model be subjected to what is known as a 'Monte Carlo' simulation. Values are randomly (or more or less randomly) generated for the variables in the model. Typically, the variables include renting levels on re-lettings, recessions, void periods, re-letting periods following a default and default probabilities themselves. The model is then 'run' hundreds or thousands of times to provide a 'simulation' of the real world. This provides a normalised cashflow, or a cashflow that can be expected to be maintained, typically in 95% of cases.

The variables are subject to stresses allocated by the rating agencies and will vary at different rating levels. For instance, the base case may assume a period of six months to re-let after a default. The raters would also run a series of cases assuming recessionary circumstances where the six months might be extended to twelve, leading to progressively higher credit ratings. If you can still pay all your bond holders after a long recession, you have a very secure cashflow.

For those not familiar with the concept, there is an interesting graphical representation of the principle underlying a

Monte Carlo simulation (in this case to estimate the value of Pi), available at www.angelfire.com/wa/hurben/butt.html.

Aside from the cashflows, the ongoing management of properties and the portfolios were very important to us. It was critical that we maintained the flexibility to manage these properties effectively over the term of a transaction, which would be outstanding until 2028.

The ability to agree to and fund extensions to properties, which are carried out by Sainsbury's, had to be catered for. We also needed to allow for substitution of properties. Over the course of 25 years it was entirely likely that Sainsbury's may wish to redevelop sites. Substitution was a straightforward way of allowing for such a scenario. Substitution properties had to match the profile of the initial portfolio in investment, vacant possession and rental valuations. Geographical diversity had to be maintained. It was important also that the integrity of the Sainsbury's income flow was maintained, so we accepted a restriction on the amount of income from post 1995 non-privity leases. We were also able to build in some flexibility to allow for substitution of properties let to Tesco or Asda – provided that those properties met the other criteria.

There was significant work to be done by the British Land internal team. The 35 properties had to be transferred to newly formed, ring-fenced subsidiary companies. This involved input from asset management, secretarial, accounts and tax, as well as a substantial volume of paper!

Once all this was achieved, there was still the production of 208 pages of UK Listing

Table 1 – The Werretown portfolio

Area	Number of properties	Rent (£pa)	Total rent (%)
Greater London	7	8,311,286	17.42
East Midlands	4	6,624,051	13.88
West Midlands	6	8,346,953	17.49
Wales	4	4,721,238	9.89
Yorkshire	4	5,053,870	10.59
South East	3	4,502,568	9.44
South West	3	4,794,973	10.05
East	2	2,529,625	5.30
North West	2	2,836,547	5.94
Total	35	47,721,111	100.00

Particulars to be dealt with. We also prepared a PowerPoint investor presentation and undertook a two-week roadshow schedule in London and Scotland with up to six presentations a day to investors.

All of the bonds were successfully sold, raising £575 million for British Land in five trenches (Table 2), which have enjoyed strong trading since.

Although this was not the first securitisation we had undertaken, it did present some new challenges. Transactions of this nature tend to be complicated to execute. There are a number of areas where tight controls are important:

- It is vital to have a timetable for everyone to work to. It needs to be realistic. The moment you start moving deadlines, they stop being deadlines and merely become targets. Targets can more easily be missed, as there is a tendency for people to view them as moveable.
- Monitoring costs is vital as they can increase dramatically. On Werretown, we had

Table 2 – Bonds issued

£65,250,000 Class A1 Floating Rate Bonds due 2016 Issue Price 100 per cent
£159,750,000 Class A2(C) 6.453 per cent. Bonds due 2028 Issue Price 100 per cent
£100,000,000 Class B1 Floating Rate Bonds due 2028 Issue Price 100 per cent
£209,100,000 Class B2 6.994 per cent. Bonds due 2028 Issue Price 100 per cent
£40,900,000 Class B3 7.239 per cent. Bonds due 2028 Issue Price 100 per cent

at least five firms of lawyers, valuers, rating agencies, an investment bank and a trustee. Total costs for the transaction were £11m, so even a 10% overrun would have had a significant effect.

- There was a large team of people working on the transactions. To make sure that everyone was fully aware of progress, and dealing with matters in an efficient and timely basis, regular Monday morning meetings were needed to keep everyone coordinated. In addition, there were ad hoc meetings arranged as necessary.

Finally, the real test is after the transaction has closed. Since 2001, we have successfully

agreed a number of extensions with Sainsbury's, we have bought in a geared leasehold interest and are currently negotiating a substitution with Sainsbury's. In 2003, we were able to raise a further £84m of debt, using the additional income arising from these extensions and other rental uplifts. The work that we put in before launch to ensure the commercial flexibility to manage the portfolio has allowed these transactions to take place without seeking third party consents and has made sure the portfolio continues to meet Sainsbury's trading requirements. Ultimately bondholders and British Land benefit too.

Article written by Peter Clarke, British Land



RICS Postgraduate Diploma in Property Investment

– by distance learning

This highly rated web-supported, distance learning course provides members of the property investment community with the skills necessary to operate effectively in an increasingly competitive environment.

- Complete the *full course* in just two years or
- Study *individual certificated modules*. These are examinable and provide exemptions from the full Diploma course
 - Course endorsed by the *Investment Property Forum*
 - Individual modules also meet your CPD needs
 - The College has made a submission to the University of Reading for validation of an *MSc in Property Investment*
 - Course starts December 2004.



The web is used to reinforce course teaching through on-line lectures, researched websites and data sources such as EGI.

Course details at www.cem.ac.uk

Quote ref: PIF0604

For a prospectus please contact the Director of Student Services, The College of Estate Management, Whiteknights, Reading RG6 6AW. Tel: 0118 986 1101 Fax: 0118 975 0188 Email: prospectuses@cem.ac.uk

Based on the campus of The University of Reading

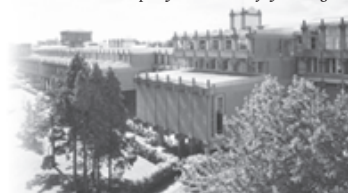


THE COLLEGE OF ESTATE MANAGEMENT

Patron: HRH The Prince of Wales

"Specialist Executive Education Provider of 2003/2004"
Awarded by Business Britain magazine – September 2003

A centre of excellence for the property and construction sector worldwide



Members guide to the IPF website

www.ipf.org.uk: make the most of your site

On entering the website, you open the homepage. The three key sections: Events, Education and Research are featured with details of the latest developments. This area is on the public site and from here a limited amount of content can be accessed. To get most benefit from the website, you should enter the blue Members Area which is located on the right hand side navigation bar.

Here you will find two boxes:

Login enter your email address here

Password enter your membership number here

Then click the 'login' text.

If you have forgotten your password, all you need to do is click 'Forgotten Password', enter your email address and 'Send', and you will receive an email confirming your password.

By logging into the Members Area, you can access all areas. You will see a short notice to members, which outlines the features within the Members Area together with key dates and important links. But the really useful content can be accessed by using the right navigation bar, which highlights six areas with exclusive information for members:

- Education
- Resources
- Members Directory
- Links
- Events & Offers
- Notice Board

Education – links to the IPF's Advanced Education Programme, the Lecture and Workshop Programme and exclusive Member-only seminars.

Members Directory – allows you to search the interactive IPF database and also download a pdf of the membership by surname or

by company. These listings are updated regularly and provide useful telephone numbers and email addresses.

Events & Offers – a really exciting and dynamic area for members, which we are constantly updating with new opportunities for members to experience, related organisations' events or products/services often at a discounted rate.

Resources – the IPF knowledge centre, where you will find the full range of research reports, surveys and all past editions of Forum View. You will also find the Papers and Reviews section, which contains copies of presentations given at our lectures and seminars, where the author has given permission. There is also a new feature for members, the Discussion Forum. This will allow members to debate issues of relevance to commercial property and could prove to be a very useful resource. It does however rely on members to provide content, so go ahead and post a comment.

Links – a very popular feature of the old website, this provides a useful directory of contact details for professional bodies and associations, government and regulatory bodies, educational establishments, news/information and directories, research organisations.

Notice Board – where news is posted about the internal workings of the IPF and its committees. You will also be able to volunteer your services to assist the IPF in its committees and working groups by completing the volunteers' form.

If you have any suggestions as to how we can improve the Members Area, please contact Vivienne Wootten, Assistant Director: vwootten@ipf.org.uk

Happy surfing!



Vivienne Wootten

Article written by
Vivienne Wootten,
IPF

Forum Activities

The past six months have once again been extremely busy for the IPF with a number of events taking place in the regions as well as in Central London. In addition to the extensive programme of lectures, workshops and free member events, the following activities have taken place:

In January 2004, the IPF Annual Lunch was also held at the Le Meridien Grosvenor House in London. At this event over 1000 guests heard from Adair Turner, Vice Chairman of Merrill Lynch Europe and Chair of the UK Pensions Commission.

This was followed in April by the Hot Property Party, held at the Jam House in Birmingham. Organised by the IPF Midlands Regional Board, this is the second year in which the event has taken place. More than 450 guests attended the party to hear non-stop hits from the world of jazz, soul, rock and pop by local band 'Hot Property' in aid of Birmingham Children's Hospital, Acorns Children's Hospice and the IPF Educational Trust. More than £6,000 was raised for the three local charities.

The Midlands Board also held a Members Lunch at the Birmingham Botanical Gardens in May 2004 which was attended by 150 members and their guests. The speaker at the event was Patrick Derham, Headmaster of Rugby School.

Finally, on 10 June, a Half Day Conference was held in Scotland entitled 'The Future Shape of Property Investment: Responding to

Investor Demand'. Over 150 delegates attended this event which had a high profile of speakers including:

- Ian Marcus, Managing Director, Credit Suisse First Boston
- David Hunter, Chief Executive, Aberdeen Property Investors
- Ian Hally, Investment Director, Scottish Widows Investment Partnership
- Pauline Bradley, Head of Joint Ventures, Bank of Scotland
- Eleanor Buckle, Senior Manager Real Estate Group, Deloitte
- John Kennedy, Chief Executive, Kenmore Property Group

Article written by
Vivienne Wootten,
IPF

Dates for your Diary:

23 September 2004 – North West Region Members Lunch, Manchester

14 October 2004 – Midlands Region Annual Dinner, Birmingham

18-19 November 2004 – IPD/IPF Annual Conference, Brighton

2 February 2005 – IPF Annual Lunch, London
(please note that this event will be taking place at the Hilton Hotel, Park Lane)

For further information, contact the IPF office on 020 7334 3799 or visit www.ipf.org.uk

The IPF is delighted that this years' Annual Dinner has been jointly sponsored by both Propex and Knight Frank

Propex: Arrival of new trade terminal

Propex, the electronic trading Exchange for the UK property investment market, has now been adopted by most of the main UK Institutions as their main registration system for investments. In recent months, Insight Investment, Invesco Real Estate and Isis Property Asset Management have joined 50 other investors using the platform as their preferred method of investment registration.

Bringing the concept of a true electronic trading platform for the property industry, Propex has now developed a way of linking all other property market information services. The Propex Trade Terminal links users directly to EGI, Focus, IPD, PMA, GOAD – aggregating all the available information on any property on to a single screen.

Paul Marples, Managing Director of Propex, says this is just the start. "All the information is out there, all we are doing is bringing it together so that property people can make decisions quickly and in light of better knowledge. We are now working on providing credit information on tenants straight through the Propex Terminal and there is plenty of other innovation in the pipeline".

Propex is becoming the established electronic trading system for the UK market and it will not be long before everyone has a Propex screen on their desks. To find out more about The Propex Trade Terminal, call 020 7659 5220 for a full information guide.

Knight Frank

Knight Frank assists the creators, owners and users of property to enhance the value of commercial and residential spaces as investments, and as effective and attractive places in which to live and work. Founded in London more than a century ago, in the year 2000 Knight Frank joined forces with the leading US real-estates practice, Grubb & Ellis, to create a network of 9,000 people in more than 200 offices in 30 countries around the world. The enlarged group is now one of only a handful of organisations able to provide a full range of real estate services in both the residential and commercial property markets worldwide.

The driving force for growth has been a commitment to providing clients, wherever they are, with the best up-to-date advice and information to help them capture value in their decision making.

Areas of expertise

Valuation • acquisition • disposal • portfolio monitoring • asset management • performance forecasting • asset allocation • fund management • rent reviews • lease assignments • property audits • premises strategy-creation • space planning • building surveying • relocation advice • cash-flow modelling • property management • planning advice • funding • marketing strategy • countryside management.



Summit for Property Investment

QE2 Centre
Westminster, London SW1
9/10 November 2004

Positively no time wasters



The first and only exhibition and conference focusing on the UK property market – reserved exclusively for a target audience of qualified investors.

SPI will attract a wide range of national and international investors actively looking for new opportunities in the UK market.

The exhibiting sectors include:
Developers • Financial Institutions • Property Consultants • Cities & Regions • Architects and allied sectors

Visitors will be on a strictly invitation only basis and exclusively include:
Institutional investors • private investors & consortia • property investment & development companies • financial institutions • corporate end-users • real estate advisers

This unique event is dedicated to new business generation at the highest level in the award winning and prestigious setting of the QE2 Conference Centre.

To make top-level contacts with these influential and qualified decision-makers contact:

David Schindler
020 7016 2122 or
davidschindler@spi.co.uk

www.spi.co.uk



Investment
Property Forum

The Chairman and Management Board of the Investment Property Forum congratulate the following professionals who have all been awarded the INVESTMENT PROPERTY FORUM DIPLOMA following the successful completion of the IPF's ADVANCED EDUCATION PROGRAMME.

Kevin Aitchison	ING Real Estate Investment Management	Merrick Marshall	British Land Company
Chris Allen	Ahli United Bank (UK)	Pamela Matthesius	Morgan Stanley
Morgan Angus	Arlington Property Investors UK	Daniel McHugh	Standard Life Investments
Stephen Ball	Hatfield Philips International	John Miles	Chase & Partners
Timothy Bevan-Thomas	Chase & Partners	Richard Miles	Lawrence Graham
Andrew Blackshaw	PricewaterhouseCoopers	Alan Mitchell	Northburn Developments
Lois Blair	Davis Langdon Crosher & James	Eri Mitsostergiou	FPDSavills
Ashley Blake	Lathe Investments	Lorcan Mooney	Standard Life Investments
Russell Bradman	Prudential Property Investment Managers	Katie Moretti	Fitch Ratings
Benjamin Bridge	ING Real Estate Investment Management	Kate Murley	Legal & General Property
Keith Burman	Brown Brothers Harriman	Cameron Murray	Scottish Widows Investment Partnership
James Carter	Plymouth & South West Co-operative Society	Philip Nell	Morley Fund Management
Ciaran Carvalho	Dechert	Colette O'Shea	Land Securities
Christine Clarke	McArthurGlen European Development	Nigel Pickup	Legal & General
Peter Conboy	Leicester Regeneration Company	Richard Quartermaine	
Simon Cookson	Ashurst	Darren Rawcliffe	Grosvenor
Amanda Cowking	Standard Life Investments	Neil Richardson	Land Securities Trillium
Astrid Cruickshank	Lightstone Properties	Melville Rodrigues	Mayer, Brown, Rowe & Maw
Christopher Edwards	Charles Russell	Adam Sadler	British Airways Pension Investment Management
David Fleetwood	Standard Life Investments	Rachel Sanders	Davis Langdon Crosher & James
James Foley	Ashurst	Agata Sekula	Jones Lang LaSalle
Nigel Fuller	Legal & General Investment Management	David Skinner	PRICOA Property
Susan Groat	Miller Developments	David Stewart	Standard Life Investments
Andrew Hann	F&C Property Investment Management	John Story	Unilever UK
Max Johnson	ING Real Estate Investment Management	Simon Taylor	Workspace Group
Anne Leckie	Standard Life Investments	Jeremy Titchen	Grosvenor
Adrian Little	Insight Investment	Tomek Trzoslo	Jones Lang LaSalle
Hugo Llewelyn	Protego Real Estate Investors	Nick Tyrrell	JP Morgan Fleming Asset Management
		Ben Walker	Close Property Management

For more information about the IPF's **Advanced Education Programme** and the launch of the IPF's new **International Property Investment Module**, see www.ipf.org.uk or call the Programme Office on 01223 477150.

The IPF's **Advanced Education Programme** is designed to help qualified property professionals at all levels develop expertise in finance, investment and real estate. The course provides a series of short modules held in Central London that can be taken individually or as a complete programme.

The IPF is a membership organisation at the forefront of the property investment market. Its mission is to improve the awareness, understanding and efficiency of property as an investment, for members and others in the wider business community, by: undertaking research and special projects; providing education; and encouraging discussion and debate.

For more information about the IPF go to:
www.ipf.org.uk