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INVESTMENT PROPERTY FOCUS

Property in perspective

In this issue:

2 *The UK Property Risk Indicator*

6 *Property Banking Forum – Lending Intentions Survey 2012*

9 *When markets go bad: Does real estate still diversify risk?*

13 *Real estate, globalisation and the great financial crisis*

16 *Real Estate industry issues – legal and regulatory round-up*

22 *UK Consensus Forecasts February 2012*

26 *A step forward in measuring sustainable property investment*

27 *Forum activities and announcements*

29 *Nick Tyrrell prize*

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 22 research sponsors. We are very grateful to this group of companies for their support of the 2011-2015 Programme.

From the editor

Sue Forster, Executive Director, IPF

In this, the 20th edition of Investment Property Focus, property is considered from economic, financial and investment perspectives and then within a global context.

Paul Clark of Property Market Analysis discusses the Property Risk Indicator, which can help to identify periods when changes in government or investor/lender policy may be necessary to avoid full-scale overheating, as well as identifying when unsustainable property and banking bubbles have occurred, and highlighting the risk of a major property and economic recession at a time when the consensus may still be optimistic.

The latest Lending Intentions Survey carried out by the Property Banking Forum underlines how much things have changed since the pre 2007 credit boom. Loan to value ratios have fallen substantially to an average of 60% and margins risen to between 250bps and 400bps. There is also an underlying concern that until there is a downward shift in prices, we are unlikely to see very much transactional activity.

During the recent financial crisis, the correlation between property and other asset classes appeared to increase substantially, prompting the IPF Research Programme to commission a major piece of work to look at property's role in a mixed asset portfolio. **Colin Lizieri** of the University of Cambridge outlines the findings of his team on the question as to whether property offers diversification benefits. The results suggest that property does offer such benefits but that the assumption that returns between property, equities and bonds hold the same relationship across all market conditions cannot be maintained.

Richard Barkham of Grosvenor Group takes the view that the recent economic crisis was due ultimately to the forces of globalisation, which led to a general sense of economic well-being and a substantive fall in the premium for holding risky assets. He warns that unless a more stable macro-policy framework is put in place, the cycle of instability will start again. Legislation and regulation may be tools in establishing a more stable environment but the sheer scale of the legal and regulatory proposals affecting the UK property investment sector, as detailed in the table produced by **Amanda Howard** and **Christine Ormond** of Nabarro, has to beg the question as to whether the proposals, when taken together, might not exacerbate the current problems.

Following initial research funded by the IPF Research Programme in 2009, **Jess Stevens** of IPD outlines the current progress being made towards measuring sustainable property investment performance, which includes a new initiative, supported by the RICS, to encourage valuers to collect sustainability data when undertaking routine inspections.

Also included in this edition is a summary of the IPF UK Consensus Forecasts (February 2012) and the latest 'Forum activities and announcements', including an overview of the Next Generation event earlier this year where Philip Ross of Cordless Group was the guest speaker.

The Nick Tyrrell Research Prize, outlined in the December edition of Focus, has now been launched formally and the rules for submissions are included in this edition.

Please let me know if there are any topics you think we should be covering in the summer or subsequent editions.

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The UK Property Risk Indicator

Paul Clark, Managing Partner, UK National Forecasts and Global Investment Analysis, Property Market Analysis (PMA)

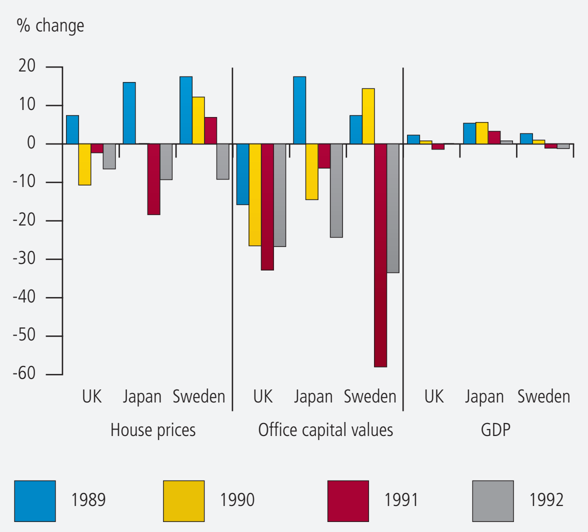
The traditional approach to analysing and forecasting property performance has been to treat the economy as an exogenous driver of real estate performance. Almost all property forecasters thus adopt a consensus-oriented economic scenario to provide the inputs for their property models.

Using this approach, recessions and periods of financial market stress are typically seen as a result of economic over-heating and inflation, industrial re-structuring or commodity price shocks. Such factors would clearly help explain the 1980-81 and 1991 UK recessions for example.

However, the recent global economic slump cannot be explained purely in these terms. For, what is increasingly clear, is that this is a so-called 'financial crisis' or 'balance sheet' recession, similar to that experienced globally in the 1930s, or in the Nordics or Japan in the 1990s, and caused by an unsustainable asset price and credit boom. There is an increasing recognition that these kinds of recession are the deepest and longest lasting of all downturns, largely because of the de-leveraging they involve. There is also a significant risk of them evolving into full-scale depressions.

At the point where these asset price and credit bubbles collapse the consensus economic forecast is likely to be hugely over-optimistic, as most traditional economic models either effectively ignore asset prices or assume efficient asset markets, and treat the banking sector as an exogenous pool of liquidity. So in the UK in autumn 2007, for example, the consensus forecast was for GDP growth in 2008-09 of 2.5% p.a., accompanied by normal credit conditions. The outcome was a two-year GDP decline of around 6% and a huge banking and financial crisis. The PMA forecasts from autumn 2007, based on a consensus-style economic scenario, allowed for a significant outward yield shift, reflecting property over-pricing, but did not allow for a major recession or banking sector crisis.

Figure 1: Property crashes led economic decline in early 1990s

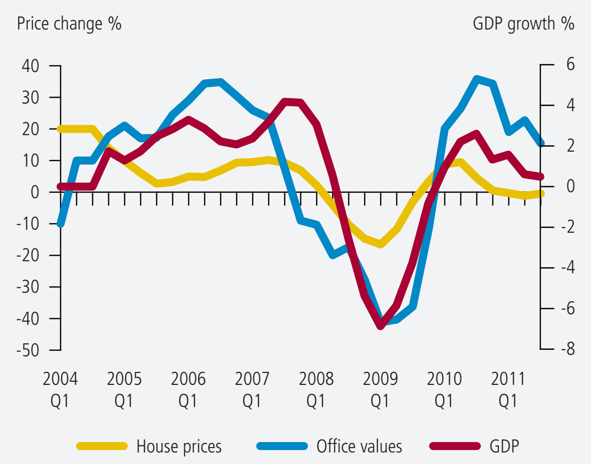


Source: PMA, Nationwide, JREI, STIX, Haver, BIS

Property's role in credit booms

Economists and policymakers[1] are directing an increasing amount of effort in trying to understand such periods and design warning signals to identify when there is a danger of them recurring. Much of this work understandably focuses on the growth of credit, which plays such a crucial role in the build-up of asset prices and of over-leveraging. What is increasingly apparent though is the key role which property markets tend to play in the unsustainable credit booms which precede these 'balance sheet recessions'. For whilst property rents and returns clearly suffer from the economic downswing, they also contribute to negative feedback effects as falling property prices increase banking distress and thus decrease economic growth. Additionally, and perhaps more controversially, we would argue that it is often the unsustainable property and credit boom which sets off the economic downturn in the first place, and the bursting of this bubble typically precedes economic decline by between six months and two years (see Figures 1-3). This was clearly the case in the UK and Japan in the early 1990s, and in many of the worst affected markets from 2007. Sweden in the early 1990s is the only case where the real estate decline was roughly simultaneous with that in GDP, and that may, in part, be due to the poor quality of real estate data available for that period.

Figure 2: 2007 UK property crash preceded recession

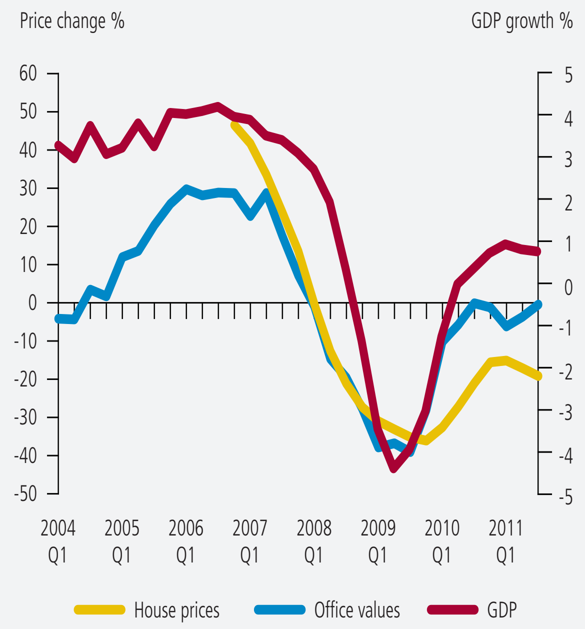


Source: PMA, Nationwide, ONS

What is certainly clear is that the very worst recorded declines in property values have all followed unsustainable property and banking booms and have been associated with severe recessions (see Figure 4).

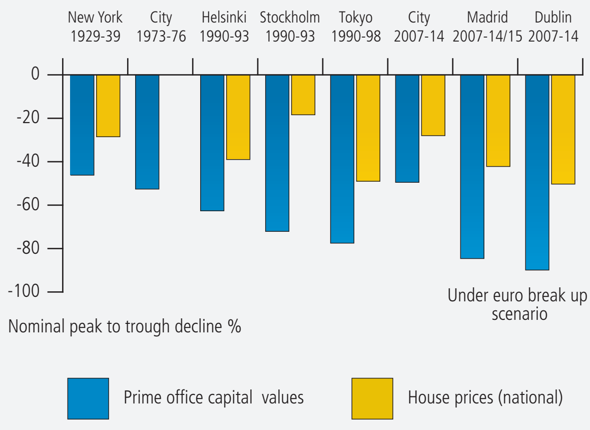
1 For example: The Bank of England (External MPC Unit), IMF, NIESR, Standard Chartered, DIW (German Institute for Economic Research).

Figure 3: 2007-08 US property crash preceded recession



Source: PMA, Chase Shiller, Haver

Figure 4: Major property crashes following asset price and credit bubbles



Source: IMF, Schiller, Wheaton & Baranski, Haver, Nationwide, BIS, Fotocasa

Linked patterns of bubble type behaviour

The most damaging of such bubbles have also included the residential as well as commercial property markets, and have involved excessive levels of lending and development activity, as well as an exuberant investment market. PMA has designed four inter-linked measures, designed to identify such linked patterns of bubble-type behaviour:

1. **Property pricing:** has a high-risk tolerance (and a belief that 'this time it is different') borne of recent strong performance, boosted capital values to unusually high levels and reduced risk premia to abnormally low levels?

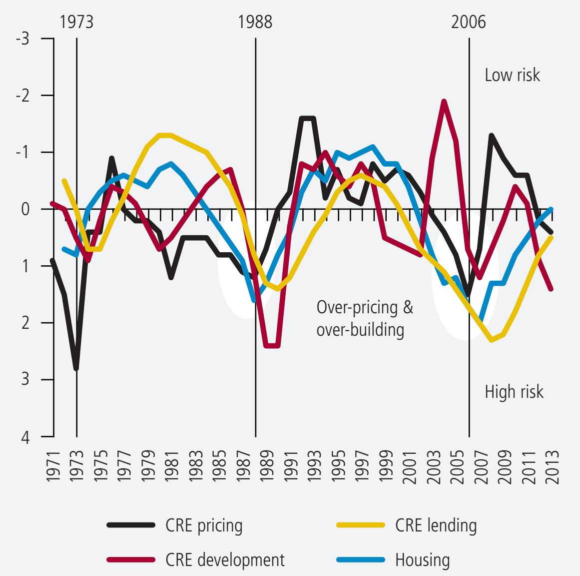
2. **Development activity:** has aggressive pricing and increased risk tolerance boosted the volume of construction activity underway to unusually high levels?

3. **Lending:** has the buoyant investment market and wider economy encouraged rapid rates of bank lending growth to real estate, and is this reaching abnormally high levels compared to overall lending?

4. **Housing:** Are the same factors observed in the residential market? And is this having a positive feedback on consumer spending and borrowing?

Effectively quantifying such measures is clearly a challenge, but, the data which is available to us in the UK, allows us to do so in a fashion that clearly identifies the danger points, as shown in Figure 5.

Figure 5: UK risk factors



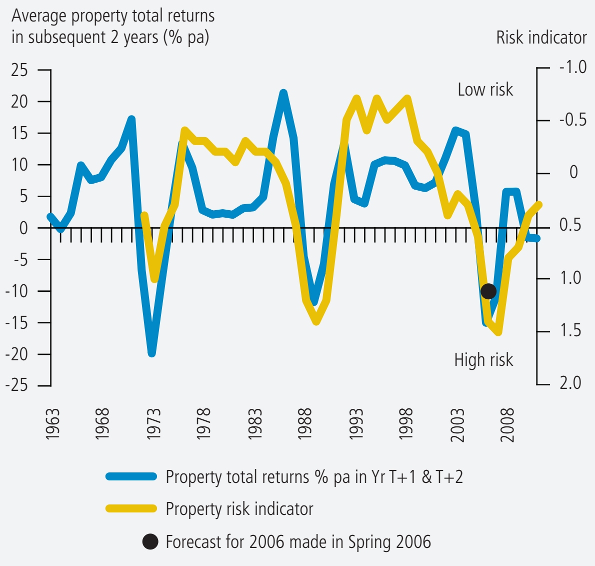
Source: Bank of England, De Montfort University, ,PMA, Nationwide, IPD, ONS, HM Treasury, CML

Over the last 40 years, there are a number of occasions where one or two of the risk factors have moved into boom territory, such as the over-pricing and over-building in the early 80s... but without a booming housing market or bank lending, and thus without a serious risk to wider economic activity. There are, however, three points where all four indicators have risen to dangerous levels. These were 1972-73, 1988 and 2006, just preceding the last three major property crashes and three of the last four recessions.

Overall risk indicator

Given that we are looking for moments where there is a pattern of linked boom-type behaviours in the market, we have combined these four individual risk factors into an overall risk indicator. This identifies three clear moments of grave danger: 1973, 1988 and 2006. There was a modest dip just after September 11, but apart from that there are no false signals from the indicator, which predicts major downswings in property returns one to two years ahead (see Figure 6).

Figure 6: UK property risk indicator and subsequent performance



Source: IPD, PMA

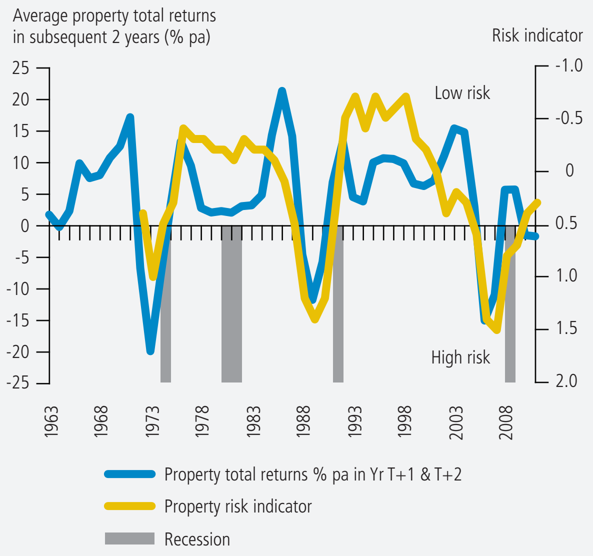
Two further points should be noted here:

1. Investors or lenders might argue that a warning at the end of 2006 was too late. However, PMA forecasts from early 2006 were suggesting that the indicator was likely to hit very dangerous levels by the year end.

2. What the indicator does not do is to predict whether returns are going to be say +5%, +10% or +15%, nor whether a boom is likely... it merely indicates when there is a bubble, which is likely to burst and inflict major damage on the property market, and also the real economy. For what is increasingly clear is that asset price bubbles (often focusing on real estate) accompanied by credit booms are often the (at least partial) causes of major recessions (see Figure 7).

So, whilst the 1980 UK recession was clearly caused by other factors, the post-2007 slump has largely been a result of the overheated property sector, and related credit boom, which preceded it. The 1973-74 recession was largely due to the oil price spike, and the 1991 recession was spurred by higher interest rates to control economic over-heating, but in both cases these contractionary forces hit an economy which was exposed by a property and credit boom.

Figure 7: UK property risk indicator and UK recessions



Source: IPD, PMA, ONS

Outlook for the UK

The property risk indicator for the UK is unlikely to dip into dangerous territory in the short term because of the severe and lengthy de-leveraging which is likely in both the commercial and residential real estate markets. The almost total absence of speculative lending is also likely to constrain development. It is quite likely though that we shall face a period of aggressive pricing and low prospective returns on prime/institutional real estate, reflecting the risk aversion apparent in capital markets at present.

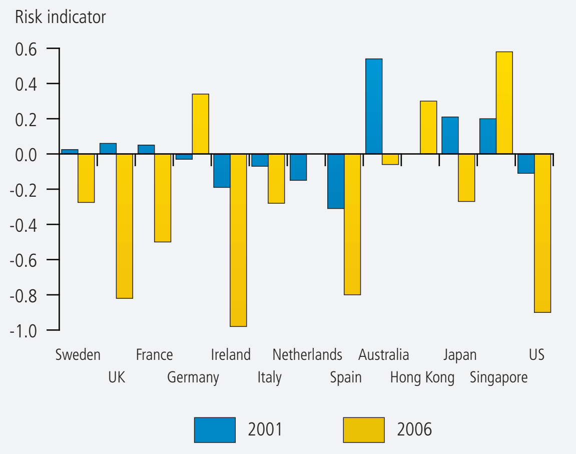
Whilst the UK property market and banking sector are unlikely to over-heat in the short to medium term, there are clearly other major risks to UK property returns, largely stemming from the eurozone sovereign debt crisis and fragility of the banking system.

International outlook

Our view that the importance of property and credit bubbles has generally been understated, that these have played key roles in causing major recessions in the UK, is supported by our analysis of international property markets. For what is very apparent is that it is those markets which were enjoying the strongest real estate and credit bubbles in 2006-07 that have since had the most severe property market slumps and economic recessions.

Figure 8 highlights the high levels of risk apparent in the US, Spain and Ireland in 2006, compared to the relative safety of the core eurozone economies and much of Asia-Pacific at that point. Since that date though, some of these other markets, having experienced major policy boosts aimed at counter-acting global recession, have started to overheat. This is particularly noticeable in France and Hong Kong, although it seems likely that if reliable data were available for China, this market would also appear high risk.

Figure 8: Risk indicators in the 2006 boom

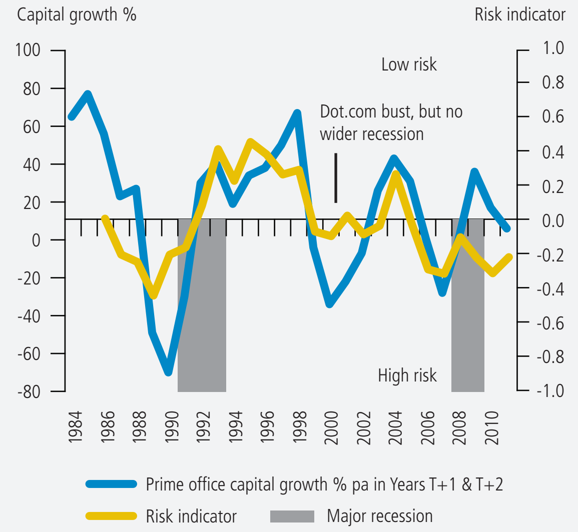


Source: PMA

Another market where the risk of a property and credit bubble developing has remained high is Sweden (see Figure 9), which, despite resilient export performance and a relatively confident consumer climate, has benefitted from low interest rates to counter the effects of global recession. This helped to boost lending until 2009, but this has now been constrained under pressure from government. Commercial pricing and development are moving into slightly risky territory though, and the housing market has been in a full-scale boom (see Figure 10). It may be that this can be constrained by policy measures, but this represents a risk that has most probably not been factored into consensus forecasts for this market.

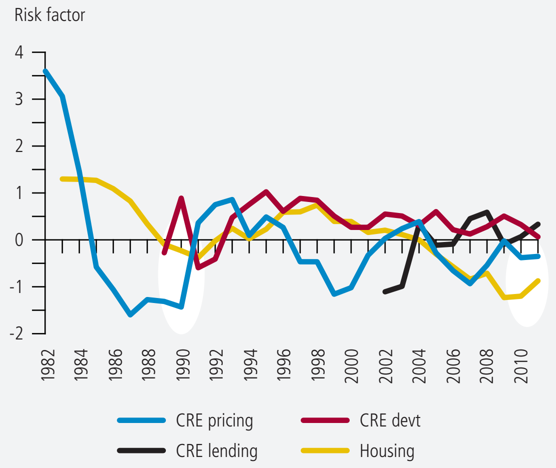
So, the property risk indicator can be utilised to identify periods when changes in government or investor/lender policy may be necessary to avoid full-scale overheating, as well as identifying when these bubbles have occurred, and highlighting the risk of a major property and economic recession at a time when the consensus may still be optimistic.

Figure 9: Swedish property risk indicator



Source: PMA

Figure 10: Swedish risk indicator components



Property Banking Forum – Lending Intentions Survey 2012

This is the second year that the Property Banking Forum (PBF), an initiative between the IPF and Association of Property Bankers, has conducted this survey. As well as the direction of UK lending over the next 12 months, it provides an insight into last year's senior debt lending activity.

The PBF approached 50 organisations, including UK and overseas banks, insurers and others, to participate in this year's survey. 28 provided data for their 2011 lending plus their expectations for 2012. In total, 34 lenders shared their views on important issues impacting on real estate lending, including economic and regulatory matters. Interviews were conducted over a six-week period between 5 January and 20 February and the results were presented at a joint IPF/APB seminar on 28 February at BNP Paribas Real Estate's offices in London, in advance of publication of the final report.

2011 Snapshot

The 28 contributors who disclosed figures reported total lending of £28.37bn in 2011, approaching 60% more than the forecast total a year earlier. Care has to be taken in how these numbers are looked at, as only 18 of the current year's contributors participated in the 2011 survey. On a like-for-like basis, therefore, these 18 respondents had forecast they might provide up to £18bn of senior debt in 2011. In fact, they lent around 9% more (£19.75bn). For the sample of lenders that also provided 2010 figures, actual lending in 2011 was £6bn more than in the preceding year, i.e. they lent almost half as much again in 2011 as in 2010.

Analysing reported lending as a whole for 2011, UK lenders accounted for the majority at over £17bn (or 60%) of debt provided, followed by German banks at £7bn (25%). Insurers had anticipated lending a little over £2.4bn in 2011, whereas they exceeded this combined target by almost 30% (£3.1bn or 11% of the total). A breakdown of 2011 lending is contained in Figure 1 below, classified into where we received five or more data returns for each type of lender.

2012 Lending volume projections

Turning to likely capital available for senior lending in 2012, respondents indicated they may advance up to £33.4bn of senior debt in the current year, which figure includes over £12bn from lenders new to the survey. This projection is around 60% more than the upper end of the 2011 forecast range. Only seven lenders expect to advance less in 2012 and, of these, three anticipate on a marginal (less than 10%) reduction. This compares to 17 who plan to lend more (including nine at 50% or more than 2011).

Development finance will be considered by up to 11 lenders, who may make around £3.6bn available. Their willingness to lend is directed towards pre-let/pre-sold development (80% of the total) in preference to speculative schemes (other than, potentially, residential developments).

Refinancing of existing loans may take around a third of the current year's lending that is available; of this, a very small proportion will be tied up in restructuring (less than 5%). All who provided this information considered at least half or more of their loans are in a healthy state, which runs contrary to a widely held belief that a significant legacy of bad loans remains to be dealt with. This may be explained in part by respondents representing 'good bank' new lending capability, whereas problem loans may have been carved out into separate holding structures, particularly in the cases of the clearing banks However, it was outside the scope of this exercise to explore this distinction.

Insurers forecast they may make up to £5.9bn available in 2012, approaching 20% of the projected total lending volume.

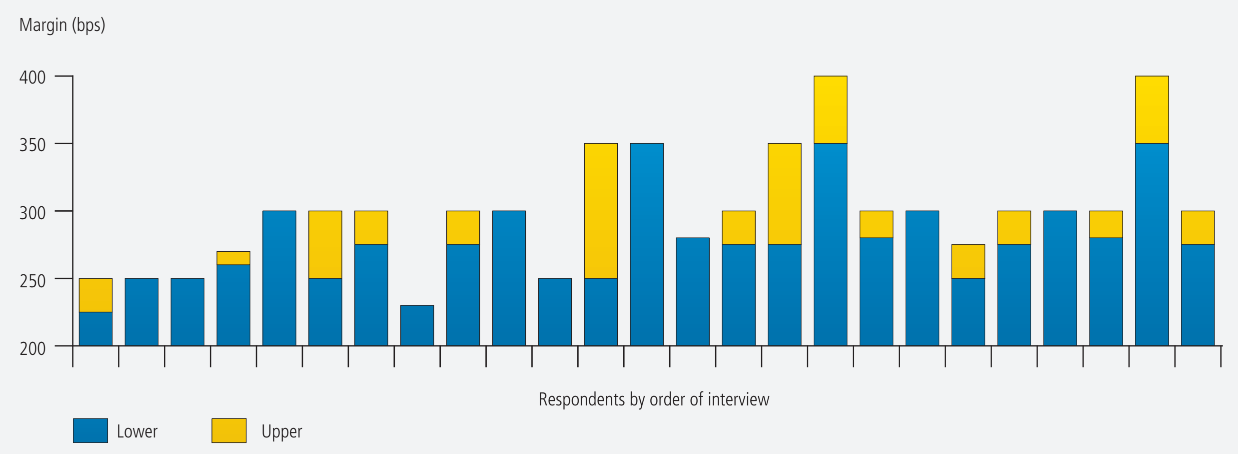
Definitions and criteria

Respondents were asked to provide their definition of senior debt by reference to loan to value ratios (LTVs). The average of the 29 observations recorded was just over 60%, although individual responses ranged between 50% and 75%. In the 12 months since the last survey, margins have increased by around 100bps and look to be rising still.

Figure 1: Profile of 2011 Lending

Lender	Prime		Secondary/ Value-add		Other		Pre-let Development		Speculative Development		Total	
	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%
UK banks	3,489	20	10,677	63	1,242	7	1,545	9	120	1	17,073	60
German banks	5,000	71	1,674	24	178	3	195	3	0	0	7,047	25
Other banks	768	68	262	23	25	2	19	2	52	5	1,125	4
Insurers	2,008	64	928	30	184	6	0	0	0	0	3,121	11
All Lenders	**11,265**	**40**	**13,541**	**48**	**1,629**	**6**	**1,759**	**6**	**172**	**1**	**28,366**	**100**

Figure 2: Senior debt margins



More than a half of respondents (17) are prepared to lend to 65% LTV ratio or higher. Mean LTVs for sub-categories of lender, all lie around 60%. UK banks fall within a band of between 50-65%. Other banks (non-UK/German) range between 50-70% and Insurers (seven respondents) fall predominantly between 50-65% LTV ratios, with one willing to lend up to 75%.

German banks (10) mainly lie towards the lower end of the range of LTV ratios, starting at 50%, although two volunteered they may be prepared to lend up to 70-75%, which may be an anomaly, given the reliance of many German lenders upon Pfandbrief funding potentially constraining the LTV ratio they can offer. Anything above a conservative level (c. 45-50% LTV) may require financing through the capital markets at significantly higher cost.

An interesting by-product of this year's survey is the rising profile of mezzanine lenders within the area traditionally dominated by senior debt. Some traditional lenders are constrained by funding issues as to the LTV ratios they can offer. Mezzanine finance providers contributing to this year's survey deployed an estimated £650m plus into the debt market over the last 12 months and could advance upwards of £1.75bn in 2012.

Much of their activity will continue to be in the junior arena, but they can and do fill the gap between depressed LTV ratios on offer & the leverage required by borrowers that still lies within the market definition of senior debt. Top-up or 'stretch' senior comes at a price but mezzanine lenders appear prepared to adjust their margins to reflect the reduced risk and the pricing of this additional finance is clearly acceptable to both lender & borrower.

Based on a hypothetical prime central London office asset, lenders were asked what margin and fees they expected to charge in 2012 for a five-year investment term loan at a senior debt LTV ratio. Assuming 60% LTV, responses ranged between 225-400bps, with the majority in the band 250-350bps. The average across all lenders is in the order of 300bps. This compares with a reported range of 200-250bps in the 2011 survey. In the six-week period over which the research was undertaken, a modest upward trend in pricing appeared to be emerging, however (see Figure 2).

Broadly, arrangement fee pricing is unchanged from 2011, with the range for prime asset lending lying between 75-200bps. The majority of lenders quoting 100bps. The average across all respondents is a little over 100bps.

Many lenders' fees do not specifically allow for the level of due diligence required to arrange the loan – so a flat rate of 1% may be charged whether the transaction involves a single asset, single leased or a multi-let property. Insurers are more likely to adjust their fees for this reason.

Factors affecting availability of capital

Respondents were asked what factors influenced their organisation's policy on the amount and type of lending it would be prepared to undertake on commercial property in 2012. Examples suggested included a need to deleverage, return on capital or regulatory changes, particularly the requirement that core tier 1 capital ratio reaches 9% by the end of June 2012.

The most common response that emerged from this question was return on capital. This was confirmed in many instances by citing the superior margins available from real estate lending as against competing business lines, when asked under what circumstances they might increase the liquidity available to the sector. Broadly, it appears that the need to deleverage is no longer seen to be the driving force amongst those lenders participating in the survey as many have gone through the deleveraging phase.

On the issue of regulatory changes, this is a major issue, especially for the banks, and has received a very high profile in recent months with a number of lenders having to curtail their activities whilst shoring up their capital bases in order to meet the EBA's 9% tier 1 capital ratio by the end of June 2012 thus banks', particularly eurozone lenders', capital is seriously constrained.

Curiously, the matter of 'slotting', by which the FSA may impose an alternative method upon UK banks to calculate their capital requirements, did not figure greatly in most domestic contributors' responses and it will be interesting to see how UK banks develop their thinking on this.

For insurers, expectations of increased activity due to the beneficial capital allocation treatment of commercial real estate debt under Solvency II has not yet been realised. Their lending appears more driven by superior returns over competing investments such as corporate bonds. Again, uncertainty is a major issue – originally set to be rolled out over 2013 across member states, Solvency II has been put into semi-stasis recently. This is thanks largely to the economic uncertainty in the eurozone, which has created delays both over forging substance of policy and implementation timescales. For a further explanation of slotting, please refer to Sylvia Bowden's article in last December's IPF Focus journal on this subject.

What is clear, however, is that this overhang of regulatory change is casting a shadow of uncertainty over real estate finance sector.

New sources of debt

The regulatory environment still appears to favour insurance companies by virtue of the treatment of real estate debt under Solvency II provisions – to the disadvantage of banks under Basel III. However, the expectation that insurers new to the market would make a significant contribution in 2011 has not come to pass, as progress in establishing new platforms did not advance as swiftly as anticipated and there is considerable caution within this group of new entrants to ensure they deliver quality business rather than seek to capture market share. Of the insurers with well-established real estate finance platforms, those lending as a match for their annuity business continue to finance longer-term debt (10 years or more).

Other prospects identified include:

Senior debt funds

A number of contributors to the survey mentioned institutions possibly pursuing this strategy. This is confirmed through recent reportage of entities such as Starwood Capital, Henderson, UBS, and Fortress believed to be considering setting up senior debt funds.

Banks with retail deposits

One respondent happily identified itself as a new entrant with a strong appetite! Clearly, there are banks that have no history of real estate lending but who now see opportunities to do business on terms that satisfy their risk-reward criteria.

Asian banks

Several contributors mentioned Far Eastern monies, especially Indian and Chinese banks, although in a number of instances caveated by the remark that they may only be prepared to support their own nationals buying into the UK market.

North American institutions

A number of insurance companies and banks (Jeffries being one mentioned by name) are understood to be considering real estate lending opportunities in the UK, alongside those already active, such as MetLife. Margins are becoming increasingly attractive in Europe (of which the UK is considered a part), following on from the recoveries these global players have seen in Asia and North American markets. Recent press reports suggest that up to 10 US companies are actively exploring the market, although it may be some time before any establish operations.

CMBS is felt unlikely to re-emerge as a major source of refinancing in 2012. Investor appetite is likely to remain limited to simple single loan transactions, similar to the recent issues for Chiswick Park (2011) and Merry Hill (2012), at margins that are not currently competitive with bank lending.

Conclusions

As a guide to underlying sentiment, this exercise provides a positive message for lending intentions in 2012, as well as a rather better 2011 than perhaps had been anticipated.

However, there is a genuine concern that until there is a shift in market pricing, with vendors' expectations reducing, there is a danger that we will not see much transactional activity in the near term.

Insurance company activity remains at a relatively low level, driven more by asset liability matching requirements and the superior returns derived from property debt as opposed to competing fixed income investments such as corporate bonds, than through the beneficial capital allocation treatment that many hope commercial real estate debt will have under Solvency II.

When markets go bad: Does real estate still diversify risk?

Professor Colin Lizieri, University of Cambridge

Research sponsored by the IPF Research Programme 2006-09, sought to explore the nature of commercial real estate returns in the light of the performance of the asset class over the recent financial turmoil and the apparent failure of property to provide the diversification gains hoped for in mixed-asset portfolios. The research team comprised Colin Lizieri, Jamie Alcock, Steve Satchell and Eva Steiner, all from the University of Cambridge, together with Warapong Wongwachara from the University of East Anglia. The results will be published in four separate papers. In this paper, we ask whether property protects investors from risk when other asset classes deliver poor returns.

The recent global financial crisis seems to have altered investors' perception of real estate as an asset class. Traditionally, the rationale for investing in real estate is a combination of attractive risk-adjusted returns, inflation-hedging qualities and benefits from diversification. Those perceived diversification benefits are typically attributed to observed low correlation coefficients between real estate and other asset classes over long periods of time. Consequently, adding real estate to a portfolio of stocks and bonds is expected to enhance risk-adjusted portfolio returns and reduce downside risk, in accordance with Markowitz's portfolio theory.

However, during the recent global financial crisis, real estate performed exceptionally poorly across different property types and locations. Moreover, correlations between real estate and other asset classes appeared to increase more than during other recent crises, such as the 1997–98 Russian and Asian financial panics. If the benefits of diversification offered by real estate dissipate because dependence with other asset classes increases during bear markets, this phenomenon has important implications for the effectiveness of mean-variance portfolio management techniques. In the presence of 'asymmetric dependence' (a varying dependence between real estate returns and the returns from other asset classes under different market conditions), the efficient frontier suggested by modern portfolio theory and typically used for capital allocation purposes is misleading: expected asset returns are systematically overstated while risk is understated. As a result, frequent rebalancing of investment positions is required to maintain a chosen target level of risk, with substantial consequences for transaction costs.

In summary, asymmetric dependence could render the traditional, mean-variance-based strategies of diversification ineffective in the protection of portfolio values during bear markets.

Measuring the relationship between returns from different asset classes

A statistically robust assessment of asymmetric dependence is crucial for determining the benefits of diversification associated with including real estate in mixed-asset portfolios. Standard portfolio theory approaches to asset allocation rely typically on a measure of correlation between assets which is estimated from historical data and assumed to be constant over time. However, empirical evidence suggests generally that, in practice, correlation varies across time and appears to be a function of the prevailing level of volatility in the market. The IPF project demonstrates clearly that the relationship between property and other asset classes has varied considerably over the last 25 years and the influence of equity and bonds on real estate returns has ebbed and flowed over that period. This time variation has important implications for risk management.

However, even accommodating this time variation does not fully account for risk, because the standard portfolio model focuses only on risk, return and covariance – the linear relationship between real estate and other assets. But real estate returns are not normally distributed: they are negatively skewed (that is, there is a higher probability of extreme negative returns than positive returns) and exhibit kurtosis (the distribution has 'fat tails' – a higher probability of high or low returns). This, combined with possible differences in the relationship between real estate and other asset classes in those tails, is important in characterising the joint distribution of returns between property, equity and bonds. These distinctions are not academic but highly relevant for portfolio construction because they determine the choice of the appropriate optimisation technique that needs to be employed to yield the desired risk-return trade-off.

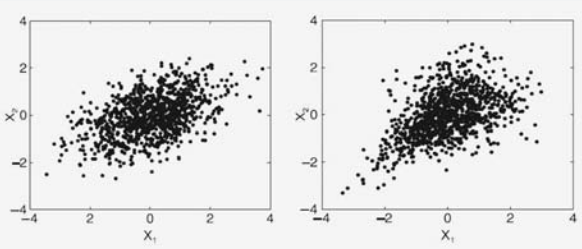
In exploring these risk-return characteristics, we distinguished between linear dependence, measured by the familiar covariance metric and representing the basis for the traditional mean-variance portfolio optimisation, and higher-order components of dependence, affected by skewness or kurtosis. This distinction is important. Linear dependence is adequately modelled in a mean-variance framework as is conventionally employed. However, if there is tail dependence, the mean-variance framework will not generate solutions that are optimal in handling risk. In our analysis, then, we separated out the linear and asymmetric components of dependence. Previous approaches (such as models based on copulas) combine the two and cannot distinguish between linear and tail dependence effects.

To capture the linear component, we use a CAPM beta approach. Beta quantifies the variation in the asset for each unit of variation in the market and is therefore a measure of sensitivity of the asset returns to changes in the market returns. However, since the CAPM beta focuses only on the covariance of the asset with the market, another measure is needed that captures those aspects of dependence between assets that are distinct from covariance. The research used the adjusted-J statistic, which relies on the concept of 'exceedance correlations'. These are a special case of conditional correlations that focus on common movement only in the tails of the return distribution and, hence, provide a measure of diversification potential in extreme periods.

The adjusted-J statistic is calculated based on returns purged of those linear effects. If two assets only have a linear relationship and there is no asymmetric tail dependence, then the statistic is constant and insignificant. The greater the departure from symmetry in the relationship and, equivalently, the greater the strength of the asymmetric relationships between assets, the greater is the test statistic. The statistic also indicates the direction of asymmetry: it will be negative if the dominant asymmetric relationship is between low returns – that is there are strong correlations when returns are well below average – and positive if above average returns from one asset are clustered with high returns from another.

Figure 1 shows the difference between plots of random variables that exhibit a normal distribution and those that show a strong (negative) asymmetric dependence. The focus of our research was on asymmetric lower tail dependence as investors are likely to be most concerned where poor equity and real estate returns coincide, when the diversification benefits are most needed.

Figure 1: Scatter plots of simulated bivariate random variables



Panel (a): multivariate normal distribution

Panel (b): strong asymmetric dependence

The figure shows the scatter plots of simulated bivariate random variables. Panel (a) shows multivariate normal (MVN) data of assets X1 and X2. Panels (b) shows a high degrees of lower tail dependence (LTD), respectively. Multivariate normality results in a symmetric, elliptical dependence pattern in which the occurrence of jointly positive returns is equal in likelihood and magnitude to that of jointly negative returns. In the presence of lower tail dependence, a disproportionate share of the probability mass is in the area of the joint distribution that represents joint negative returns.

Analysis of data

We analysed the relationship between real estate performance, equities, small cap stocks and bonds between 1990 and 2010 examining daily, weekly and monthly performance. Figure 2 shows the main descriptive statistics for the return series studied. The daily price return series include data from the FTSE/EPRA UK index (FEUTDKL) as a measure of the performance of public listed real estate, the FTSE All Share (FTALLSH) to measure equity market returns, an index of Small Cap stocks (FTSESCO) and returns from 10-year UK government bonds (BMUK10Y). The FTSE/EPRA UK index and the FTSE All Share index have substantially higher standard deviation values than the Small Cap index and, as expected, UK bonds. Values of skewness and kurtosis suggest highly non-normal distributions. We tested both total return and price series, with very similar results.

The monthly total return series also include information on the IPD total return index (IPD) and two de-smoothed series; one obtained using the conventional de-smoothing technique (CONV) and one obtained from an innovative desmoothing technique that adjusts for variations in valuer behaviour that depend on the state of the market, using a threshold autoregression (TAR) procedure. The mean values of the two desmoothed series are similar to the mean of the IPD series but their standard deviations are substantially higher, reflecting the effects of de-smoothing. The TAR technique also produces stronger negative skewness and kurtosis, since the full effects of shocks may be masked by valuation smoothing effects. The monthly private property series appear to offer higher returns for less risk than the listed property company returns, which may reflect the effect of leverage in magnifying the falls in value over the financial crisis.

Figure 2: Descriptive statistics of data employed

Panel A: Daily price return

DESCR	Mean	Stdev	Skewness	Kurtosis
FEUTDKL	0	0.0127	-0.0598	10.539
FTALLSH	0.0002	0.0105	-0.1688	10.3507
FTSESCO	0.0001	0.0065	-1.0733	12.9972
BMUK10Y	0.0001	0.0041	0.0562	7.1975

Panel B: Daily total return

DESCR	Mean	Stdev	Skewness	Kurtosis
FEUTDKL	0.0001	0.0127	-0.0532	10.5047
FTALLSH	0.0003	0.0105	-0.1719	10.3274
FTSESCO	0.0002	0.0065	-1.0513	13.0714
BMUK10Y	0.0003	0.004	0.0802	7.2117

Panel C: Monthly total return

DESCR	Mean	Stdev	Skewness	Kurtosis
IPD	0.0058	0.0116	-1.8078	9.6981
TAR	0.0044	0.0318	-8.2676	102.1454
CONV	0.0056	0.0261	-1.3246	8.7621
FEUTDKL	0.003	0.0609	-0.4789	5.1253
FTALLSH	0.0067	0.0432	-0.6302	3.7288
FTSESCO	0.0053	0.0544	-0.5533	5.957
BMUK10Y	0.0069	0.0196	0.0254	3.5409

Research results

An examination of the linear relationships (see Figure 3) suggests that real estate is positively linked to the equity market but negatively linked to bond returns. The private real estate series (smoothed and de-smoothed) have lower correlations with the financial assets than the public, property company and REIT returns.

As far as the daily price return and total return series are concerned, there is some evidence that listed real estate reduces risk when combined with equities, with beta coefficients significantly smaller than one with respect to the FTSE All Share index. However, the beta coefficient of listed real estate with respect to the Small Cap index is statistically indistinguishable from unity, implying that the two assets have similar levels of systematic risk. By contrast, using monthly frequency data, listed real estate appears to display some risk-dampening behaviour in relation to the Small Cap index, but not the FTSE All Share index. This finding suggests that the characteristics of monthly returns are significantly different from daily returns.

Figure 3: Unconditional correlations between the return series studied

Panel A: Daily price return

DESCR	FEUTDKL	FTALLSH	FTSESCO	BMUK10Y
FEUTDKL	1			
FTALLSH	0.5631	1		
FTSESCO	0.5617	0.6918	1	
BMUK10Y	-0.0534	-0.0513	-0.0822	1

Panel B: Daily total return

DESCR	FEUTDKL	FTALLSH	FTSESCO	BMUK10Y
FEUTDKL	1			
FTALLSH	0.5642	1		
FTSESCO	0.5616	0.6927	1	
BMUK10Y	-0.0552	-0.0536	-0.0843	1

Panel C: Monthly total return

DESCR	IPD	TAR	CONV	FEUTDKL	FTALLSH	FTSESCO	BMUK10Y
IPD	1						
TAR	0.5721	1					
CONV	0.6318	0.7438	1				
FEUTDKL	0.2906	0.2108	0.2652	1			
FTALLSH	0.1562	0.2468	0.1542	0.6154	1		
FTSESCO	0.1912	0.261	0.2088	0.6267	0.8211	1	
BMUK10Y	-0.205	-0.118	-0.176	0.191	0.1828	0.0393	1

Results from the CAPM beta estimation of the different types of UK real estate investments against the benchmarks show that for listed real estate, the linear dependence with UK FTSE All Share and Small Cap stocks is significantly different from zero and similar in magnitude for the daily price and total return series (DPR and DTR, respectively), but slightly higher for the monthly total return series. However, from a risk management point of view, it is interesting to assess whether the linear dependence between real estate and the market is significantly different from one, since a CAPM beta coefficient smaller than one implies some risk-dampening influence of the asset on portfolio performance.

For unlisted real estate, the three monthly total return series (the reported IPD series and the two unsmoothed series, TAR and CONV) appear to have insignificant linear association with the stock market indices. This finding implies substantial benefits of diversification and risk-dampening effects of direct real estate on a mixed-asset portfolio containing these assets. The linear association with government bonds is negative and has some statistical significance, corroborating the evidence for substantial benefits of diversification associated with direct real estate investments.

The daily real estate CAPM beta series are not constant and fluctuate between -0.2 and 0.2 until the financial crisis and then all three exhibit a strong spike following the collapse of Lehman Brothers in September 2008, upward with respect to the equity and small cap indices and downward with respect to bond returns.

In sum, the results suggest that there are linear relationships between real estate, equity, small cap stocks and bonds (confirmed in the other analyses performed in the research project) and that much of the coincidence of falling values and returns in the financial crisis can be attributed to these linear factors. Once these effects had been removed, was there any evidence of asymmetric dependence?

Analysing the public real estate daily returns, there was some weak evidence of negative tail dependence between real estate and equities – the adjusted-J statistic is negative, but just below conventional statistical significance levels. However, this effect disappears at monthly frequency. It seems that any common downward reaction is largely confined to daily shifts (perhaps driven by the portfolio trades of index tracker funds) and that for lower frequency data, common movement is largely driven by the linear effects that are captured by CAPM and conventional mean variance approaches.

We found little evidence of tail dependence for the private real estate returns, whether in their smoothed form or desmoothed. Perhaps surprisingly, we found some evidence of positive tail dependence between bond returns and desmoothed real estate returns. This result seems to be largely driven by the financial crisis phase and, perhaps, by the recovery in the private real estate market combined with the value enhancing impacts of the sharp fall in government bond yields.

Conclusions

Our results suggest that as the frequency of the returns falls from daily to weekly to monthly, so the significance of any tail dependence in UK real estate returns diminishes. This implies that for longer-term investors, real estate still offers clear diversification benefits when placed alongside equities in a mixed-asset portfolio. By contrast, managers of real estate securities funds who are required to revalue or rebalance their funds and manage their exposure on a frequent basis need to be aware of tail dependency effects and their impact on diversification;

It is also revealing that the relationship between government bond returns and real estate performance is more complex than often portrayed, resulting from the contradictory impacts of interest rates (with falling rates associated with rising bond and real estate prices, other things equal) and risk premia effects, where, in troubled markets, 'flight to safety' effects push bond prices (and returns) higher and other asset prices lower.

The potential risks of clusters of poor returns across assets and asset classes need to be considered in shaping portfolios and it is clear that the assumption that returns between real estate, equities and bonds hold the same relationship across all market conditions cannot be maintained. By implication, standard mean-variance portfolio strategies may be sub-optimal in failing to account for periods when 'diversification does not work', where correlations between asset classes rise rapidly. This suggests the need to investigate risk management procedures that are more sensitive to these time-varying and conditional relationships between investment assets.

Real estate, globalisation and the great financial crisis

Richard Barkham, Research Director, Grosvenor Group

Despite the recent wave of positive sentiment over prospects for the world economy, the effects of the great financial crisis (GFC) are still very much with us. We see them in the sluggish US recovery, where the depressed housing market continues to hold back construction activity and retail spending. They are also apparent in the eurozone, where the banking system is on life support as a result of over exposure to the collapsed southern European property market. This exposure is both direct, through loans to real estate and indirect through holdings of the debt of governments, whose tax revenues have been denuded by the slump in real estate transactions. Perhaps the most striking legacy of the GFC is the ultra-low interest rates that are now regarded as normal throughout the OECD. Super-loose monetary policy is anything but normal and central bank balance sheets cannot continue to expand forever.

It suits politicians to blame the GFC on the greed and cupidity of senior investment bank executives. However, it was not coincidental that the crisis was preceded by a globally coordinated real estate boom and slump. Ultimately, the cause of the crisis was globalisation, or at least the poorly-regulated and overly geopolitical form of it currently transforming the world economy. Still, even if it is not entirely culpable, it behoves the real estate industry to reflect on its role in the crisis, for the purpose at least of offering the best possible advice to clients in the future.

The impact of globalisation

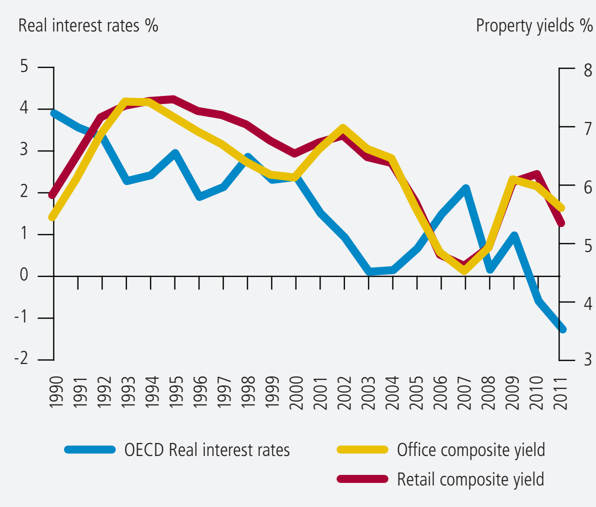
Globalisation is the process by which national barriers to trade are reduced and the range and depth of individual countries' integration into the world trading system is increased. Over the 1990s, globalisation received two major boosts. The first was the fall of communism and the release onto the global labour market of approximately 1.5bn additional workers. The second was the development of China's 'open door' policy to foreign direct investment and its subsequent accession to the World Trade Organisation. As production shifted from high cost locations in the OECD to China a flow of cheap goods began to hit Western markets, which as well as stimulating a shopping boom, also helped to suppress inflation. The fall of communism had another, more subtle impact on OECD inflation rates. The arrival of skilled workers from Eastern Europe played an important part in the inflation-free growth of what, from 1992 to 2007, became known as the 'great moderation'.

The three main features of the great moderation were low inflation, falling unemployment and a marked decline in the volatility of quarterly GDP growth. As the period unfolded, economists first attributed this period of prosperity growth to the Thatcher/Reagan labour market reforms of the 1980s. Later central banks began to take more credit for the operation of 'supply-side monetarism', in particular, the successful management of demand about a rising trend of supply. With hindsight, it is clearer that the forces of globalisation, particularly the flow of cheap goods from Asia, played a bigger part in suppressing inflation than was appreciated at the time. In any case, that series of positive economic shocks and the 'we have beaten the cycle' narrative that developed alongside it, led to a general sense of economic well-being and a substantive fall in the premium for holding risky assets.

The fall in the risk premium benefited real estate values. Although real estate has both equity and bond-like characteristics, it is much closer to the latter than the former. As inflation all but disappeared from OECD economies after about 1992, so bond yields started to fall. As bond yields fell, so also with a lag, did real estate yields. So began the long period of upside surprises in real estate returns particularly in the US and the UK, but elsewhere as well. Real estate was caught in the slipstream of the long bull market in bond yields. Real estate in the world's financial capitals did particularly well, boosted as it was by rising equity values.

OECD housing markets also received a double boost from falling unemployment and also falling mortgage rates. There was a brief 'hiccup' in the performance of real estate as an asset class in the wake of the stock market crash of the early 2000s, but this affected mainly office markets.

Figure 1: OECD real interest rates and global property yields

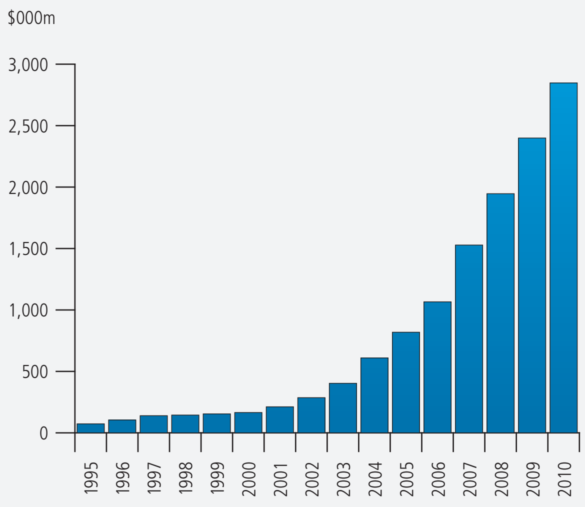


Source: IHS Global Insight, Grosvenor Research

Inflow of Asian capital

Unfortunately, as we can now see, it was not only cheap goods that were pouring into Western markets, but also cheap capital. Japan led the way as a savings exporter through most of the 1990s but as production shifted to China, which has a very high structural savings rate, so the floodgates of cheap capital were opened. The flow of Asian savings into world bond and money markets depressed interest rates and stimulated a huge build up of debt by OECD consumers, corporations and governments. This debt mountain is very far from eroded: indeed it is only held in check by the extraordinary expansion of central bank balance sheets.

Figure 2: China's foreign currency reserves



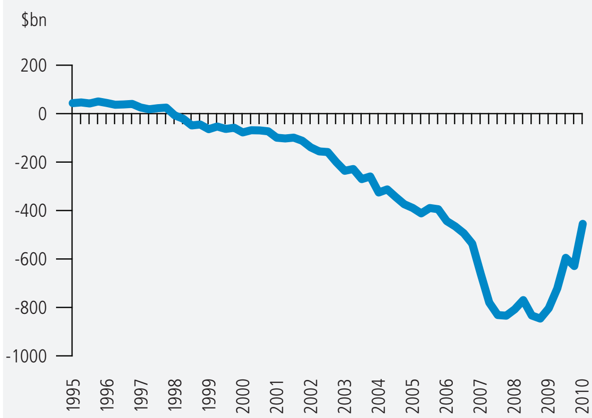
Source: IHS Global Insight

The flow of Asian savings had another effect: it allowed OECD central banks great freedom to pursue monetary stimulation in response to the various economic shocks of the period. For instance, in response to the Russian bond crisis and the near collapse of Long Term Capital Management, interest rates were cut. The surplus liquidity thus created led to the dot.com boom. In the aftermath of the tech crash in 2001, interest rates were again cut by OECD central banks, leading directly, albeit with a lag, to the globally coordinated real estate boom that began in 2003 and ended in 2007. A clear pattern emerged of monetary stimulus, asset price appreciation and economic turbulence originating in poorly-regulated financial markets, including the banking system, followed by further monetary stimulus.

Even if we accept that the banks were not the ultimate cause of the GFC, they did, alongside their regulators, play an important, perhaps culpable, role in the near collapse of the world economy. The implicit deposit insurance which derived from the various banking conglomerates becoming 'too big to fail' led to an attitude to risky lending, particularly to real estate, which was negligent. It was a failure of the supervisory systems that allowed the banks, investment banks in particular, to hedge and conceal this risk in the 'shadow banking sector'. So, with the downside risks hedged, funding from Asian savings available via the inter-bank market and aggressive monetary stimulus underway, the banks made the growth of their loan books a top priority, particularly after 2001. When banks compete for market share, their first port of call is always real estate. The maths are simple – the approximate total value of commercial real estate in the US is $7.7trn: so if values rise by 10% an additional $770bn of lending capacity is created. As banks compete to lend to real estate, values rise and further lending capacity is created. It is a classic speculative bubble and is broadly what happened between 2003 and 2007. The more inflated values became, the less the rise in interest rates required to put the market into reverse.

In essence, it is the combination of, monetary stimulation, surplus capital, poor banking regulation and excess lending to real estate that has so destabilised the eurozone. The advent of a single interest rate provided to the peripheral eurozone countries a monetary boost of the most extreme kind, kick-starting a long property boom. Booming construction activity, particularly in Spain and Portugal meant that lack of competitiveness in export markets did not have to be put right. Southern European banks could fund excess lending to real estate and construction, by accessing the inter-bank market which was replete with excess savings from Asia, and also Germany. Government revenues were boosted by taxes flowing from buoyant real estate and construction markets. It all worked quite well until 2007 when rising interest rates caused the global real estate market to crash almost taking the banking system with it.

Figure 3: Net credit position of banks in Greece, Ireland, Portugal and Spain (GIPS) with banks in the rest of the world



Source: International Monetary Research, BIS

How can we ensure greater stability?

Where are we now, five years after the great financial crisis? The US recovery seems to be gaining some traction and the ECB is at last acting as a lender of last resort, so the world feels a safer place. But the sense of relief that has been developing over the last six months or so is quickly dispelled by even a cursory examination of the balance sheets of the world's main central banks. These reveal the desperate ongoing struggle between monetary policy and recession. Regulatory changes have focused on the banking sector and, in some countries like the US, it now looks capable of withstanding a major financial crisis.

However, the policy prescriptions for the longer term are quite different to these. The current 'beggar my neighbour' form of globalisation, in which countries, like China and Germany are allowed to run structural current account surpluses for long periods has to be brought to an end. Developed nations need to work much more cooperatively with the emerging economies to set, albeit within the limits set by different stages and form of economic development, a more stable macro-policy framework.

In short, there needs to be a much expanded role for the G20. Unless there is very rapid progress in this area, we are likely to see again, perhaps in the near future, the cycle of extreme monetary stimulation, asset market inflation including real estate and a big shock to growth emanating in the financial markets.

Every month for the past 11 years, Grosvenor's research team has produced a paper on the prospects for the world economy and key property market. Each of these publications contained a short piece or original research in the area of real estate economics. Together these articles tell a very interesting story of the forces transforming world real estate markets. They have been published, with additional commentary, as 'Real Estate and Globalisation' by Wiley-Blackwell.

http://eu.wiley.com/WileyCDA/WileyTitle/productCd-0470655976.html

Real Estate industry issues – legal and regulatory round-up

This table gives an overview of some of the main legal and regulatory proposals affecting the UK real estate investment sector. It includes details of timings and the impact of the various issues. The table is divided into legal developments – UK/general, regulatory, banking, tax and competition. The issues are in no particular order.

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LEGAL DEVELOPMENTS – UK/GENERAL

Lease Guarantee Arrangements after the House of Fraser judgment

The House of Fraser case [K/S Victoria Street v House of Fraser (Stores Management) Ltd and others [2011] EWCA Civ 904] concerned a covenant which appeared to allow assignment without consent if the parent entity gave a repeat guarantee. A repeat guarantee is one where the (existing) guarantor of a tenant guarantees that tenant's assignee.

The judgment upheld (and expanded on) earlier rulings that a repeat guarantee was void.

The Court of Appeal in obiter statement (made in passing and not decisive in that case) confirmed that the use of sub-guarantees is valid. Sub-guarantees are where the guarantor of a tenant guarantees the obligations of the tenant in the authorised guarantee agreement which the tenant enters into on assignment.

It was also held by the Court of Appeal obiter that an assignment to a guarantor is void.

Timing

Effective from 27 July 2011.

Comments

Repeat guarantees – these are void irrespective of whether they are required by the landlord or are 'voluntarily' offered by the tenant/assignee/guarantor.

Sub-guarantees – as the statements in the judgment regarding these are obiter, it is conceivable that the Supreme Court would, if the case ever came before it, decide differently. Therefore whilst they are currently assumed to be valid, some caution needs to be exercised if you are considering relying on them at a future date.

Assignments to a guarantor – the part of the judgment, which is again obiter, stating that these are also void, has attracted the most controversy. If these are void, what are the consequences? The lease would in such circumstances remain with the (ex) tenant and with the guarantor remaining as guarantor. However, the consequences can be much more complicated and uncertain if there have been subsequent assignments.

There is likely be a negative effect on the investment value of assets under existing lease arrangements where the landlord is relying on parent company repeat guarantees or there has previously been an assignment to a guarantor.

A landlord who is concerned about the covenant strength of a prospective tenant in future might consider whether it should insist on the parent company taking the lease in its own name.

Carbon Reduction Commitment Energy Efficiency Scheme (CRC)

CRC imposes cost liability associated with consumption of energy. Phase 1 applies to all organisations that consumed more than 6,000 MWh of electricity through half-hourly meters in 2008.

Participants must buy carbon allowances to offset the energy consumption deemed their responsibility under the CRC rules.

With the withdrawal of the concept of 'revenue recycling' in 2010, the CRC is effectively a complicated tax.

Timing

Registration for Phase 1 closed on 30 September 2010.

The first performance league table was published in Autumn 2011.

In July 2012, participants will have to surrender carbon allowances, for the first time, to offset their energy consumption over the year 2011-12 (1 April – 31 March).

The first opportunity to buy allowances will arise in June/July 2012. The initial price will be £12/tonne of CO2. HM Treasury will set the price annually thereafter.

Draft regulations dealing with allowance sales have been published and consulted on. Various problems with these need to be resolved quickly by the Government to enable the first allowance sales to work.

The Government has also consulted on simplification proposals, most of which will be relevant only from Phase 2. Further detail and draft regulations are only timetabled 'in time' for coming into effect on 1 April 2013, though further announcements are expected in Spring/Summer 2012.

Comments

The impact on the real estate industry includes a landlord's ability (and desire) to seek to pass down its CRC costs to its tenants. Some landlords may be seeking to pass on the cost of allowances to occupiers. However, occupiers may seek to reduce their rental expense to allow for additional non-rent property expenses (i.e. CRC costs).

CRC's application to holding and investment structures and energy purchase arrangements is complex and needs to be examined on a case-by-case basis, applying the contractual and factual background. An example of a problematic area is where the trustee of a unit trust holds legal title to a property and buys its energy supplies.

Government simplification proposals include treating a 'trust' as if it were an 'undertaking', for Companies Act purposes. Responsibility for ensuring compliance with any CRC liability attaching to the trust would fall either to a sole beneficiary, the 'operator' or the trustee, but treating each trust separately.

Calls for more radical reform of the CRC remain. However, assuming the Government merely implements these proposals described above, they will deliver a degree of simplification. The property industry has still to deal with the administrative burden, the 'pass through' question and uncertainty on carbon allowance prices.

Lease accounting rules (IASB Exposure Draft regarding IFRS leases)

Proposed changes to accounting standards represent a radical shake up of accounting for leases.

Under the initial draft of the proposals, all lease obligations would be capitalised on the balance sheet. There is a proposed exemption for landlords who use fair value accounting.

Apart from implementation costs, the new standards would result in an asset and a liability being recognised in the financial statements, which would continue over the lifetime of the lease. This is likely to have an adverse effect on a company's gearing and financial covenants.

Timing

Revised draft proposals are expected to be published for comment in the second quarter of 2012.

The proposals are expected to apply from 2013 (subject to change following publication of the revised draft).

Comments

In their current form, the proposals would eliminate the distinction for accounting purposes between finance leases and operating leases. Operating leases do not currently appear on a company's balance sheet.

The changes will impact on financial and commercial decisions – including a greater incentive for lessees to seek shorter leases. It may mean it is more desirable to own rather than lease a property. The pressure for shorter lease terms will also impact on lenders.

The proposals are likely to affect landlords who do not or cannot use fair value accounting. The impact on tenant balance sheets will influence how they wish to occupy premises.

Energy Performance Certificates (EPCs)

The Energy Performance of Buildings (Certificates and Inspections) (England and Wales) (Amendment) Regulations 2011 (SI 2011/2452) will introduce stricter measures relating to EPCs when marketing any property for sale or rent.

The key changes are as follows:

- the seller or landlord must commission an EPC before marketing a property (i.e. instruct a suitably qualified specialist);
- the seller or landlord must then use all reasonable efforts to obtain an EPC within seven days after marketing the property (although there is a further window of 21 days in which to obtain an EPC if one cannot be obtained in the first seven days);
- the property's written particulars must contain the first page of the EPC (rather than just the asset rating); and
- if an air-conditioning inspection report is required, this report must be lodged on the central EPC register (and a fee may be charged for doing so).

Timing

The new measures will apply from 6 April 2012.

Comments

At present, the key duty relating to commercial property and EPCs is that when a building is to be sold or let, the seller or landlord must provide the prospective buyer or tenant with a valid EPC at the earliest opportunity. The stricter measures currently only apply to the sale of residential properties.

However, after 6 April 2012, the stricter measures will apply to the marketing of all properties (both commercial and residential) for sale or for rent.

It is important to consider these measures when marketing any property as the obligations apply both before and after marketing takes place.

Minimum EPC rating for domestic and non-domestic lettings

The Energy Act 2011 provides for powers to ensure that it will be unlawful to rent out a residential or business premise that does not reach a minimum energy efficiency standard (the intention is for this to be set at EPC rating 'E').

The Energy Act 2011 also includes provisions to ensure that private residential landlords will be unable to refuse a tenant's reasonable request for consent to energy efficiency improvements where a finance package, such as the Green Deal and/or the Energy Company Obligation (ECO), is available.

Timing

Bar on letting domestic or non-domestic premises below the minimum EPC rating is due to come in from April 2018.

Bar on refusing tenants' reasonable requests for energy efficiency improvements is due to come in from April 2016.

Comments

The minimum EPC rating is, potentially, a ticking time-bomb in the real estate industry. Estimates range from 20-40% of current building stock below the intended minimum 'E' rating.

Some flexibility is to be provided for (e.g. for listed buildings) and some exceptions made (to be confirmed). Similarly, sanctions for failure to comply have also to be confirmed.

However, these new powers provide a clear rationale for assessing portfolios, identifying properties 'at risk' and planning for energy efficiency retrofit (where possible).

Localism Act 2011

The Localism Act (the Act) came into being at the end of 2011 and makes a fundamental shift of power from Westminster to people. Seeking to promote decentralisation and democratic engagement, and giving new powers to local councils, communities, neighbourhoods and individuals, including in the area of planning.

Timing

Provisions in the Act came into force at the end of last year, whilst others will be phased in during 2012-2013.

Comments

The Act devolves a huge range of new powers and freedoms, overhauls the planning system and gives communities greater control over local housing developments.

The localism agenda is intended to spark a profound shift in the way England is governed in favour of local communities.

Community Infrastructure Levy (CIL)

The Planning Act 2008 introduced the CIL as a new charge that local planning authorities can levy on developments to contribute towards the cost of local and sub-regional infrastructure. The levy will apply on an area-by-area basis.

Timing

CIL Regulations came into effect on 6 April 2010, but the imposition of the levy for a particular area is dependent upon the relevant authority for the area adopting a CIL charging schedule for their area setting out their levies.

Local authorities are likely to take between 12 to 15 months to prepare and adopt a CIL charging schedule for their particular area (with almost all authorities expected to have a levy in their area by April 2014).

Some authorities have already adopted a CIL charging schedule. Charges are expected to be applied in London from Spring 2012.

Comments

CIL will replace many (but not all) section 106 planning obligations.

Charges are already being applied in some areas and developers, land owners and lessees will need to be careful to ascertain whether development in their area is subject to the charge. Charges can be payable by land owners and lessees even if they are not carrying out the development.

The jury is out as to whether the current Government will seek to iron out the ripples in the drafting of current CIL Regulations and provisions in the Planning Act 2008. We envisage difficulties and litigation in respect of CIL.

General Data Protection Regulation

The draft General Data Protection Regulation (the Regulation) is the centrepiece of a new legal framework which lays the foundation for the Digital Single Market. It will replace and repeal the current Data Protection Directive.

The draft Regulation proposes to introduce a much more stringent data protection regime in the EU. Key provisions include much stricter data security provisions, personal data breach notification, mandatory data protection officers for businesses employing more than 250 employees, new data subject rights and, for the first time, obligations for data processors.

The draft Regulation also proposes much stronger penalties for breach with fines of up to 2% of worldwide turnover.

Timing

The draft Regulation published in January 2012 needs to be approved by the EU member states and ratified by the European Parliament. Best estimates are that it will be approximately two years before it is adopted. Once adopted, it will have direct effect and will not require local law implementation.

In the UK, the Ministry of Justice call for evidence on the impact of the draft Regulation has now closed. The British Bankers Association (BBA) and Association of Financial Markets in Europe (AFME) submitted a joint response proposing their members' comments and suggested amendments.

Comments

Fund managers will be keen to embrace these new data protection laws, both from a regulatory perspective and also to be able to proactively promote investor confidence and ensure competitive advantage. It is relevant in terms of all personal data fund managers process relating to:

- customers and investors (both KYC and in respect of marketing);
- employees; and
- any third parties who process data on a fund manager's behalf.

The possibility of eurozone exits or break up

A eurozone collapse or exit would have consequences reaching far beyond the eurozone, sovereign states and banks, and would affect virtually every person and business one way or another. The two key issues likely to be faced by businesses on one member state exiting the euro are likely to be:

- maintaining value – the most likely scenario is that the exiting state pegs its currency to the euro at the point its new currency comes into effect but that the markets then rapidly devalue that currency. Creditors would therefore receive less value in the new currency as the conversion of the obligation owed to them would take place at the legislative conversion rate, likely to be higher than the on-market exchange rate; and
- receiving payment – in order to prevent excess capital flight from the exiting state, exchange controls would need to be put in place, restricting the ability to transfer funds out of the country concerned. Creditors may therefore face delays in withdrawing funds or receiving payments from parties located in the exiting state.

Timing

Not applicable.

Comments

The currency of payment will be a key issue for cross-border obligations (the currency of the EU or the new currency of the exiting member state?). A number of factors will determine the outcome, in particular the intention of the parties and the degree of association with any one country (for instance, contractual provisions on governing law and jurisdiction, place of payment, defined currency, termination and default).

This issue may be particularly relevant for funds denominated in euros which do not allow the general partner to confirm or replace the currency of payment; or for any contracts where there are funding obligations from weaker eurozone countries and drafting needs to be considered to avoid automatic denomination into a new currency.

For now, real estate businesses can (and should) be doing the following:

- assessing risk: are you exposed to euro-denominated debtors, funders or investors (or do you have deposits) in 'at risk' jurisdictions (or deposits with financial institutions exposed to weaker states)?
- managing risk: can you reduce currency redenomination risk in contracts? Can you manage where cash deposits are held to minimise risk?
- monitoring the position: can future transactions be de-risked, such as by specifying termination rights on a currency redenomination?

LEGAL DEVELOPMENTS – REGULATORY

Alternative Investment Fund Managers Directive (AIFMD)

The intention of AIFMD is to create a comprehensive and effective regulatory framework for Alternative Investment Fund Managers (AIFMs), being the managers of collective investment vehicles other than Undertakings for Collective Investments in Transferable Securities in the EU. It establishes the framework for the authorisation, operation and transparency of AIFMs that manage and/or market these funds into the EU. It will catch real estate funds, private equity funds, hedge funds and most other arrangements which seek to raise capital from a number of investors for a particular purpose in order to achieve a benefit for those investors.

Timing

AIFMD was adopted by the EU Parliament on 11 November 2010 and came into force on 21 July 2011. It will become national law two years after entry into force, therefore effective in the UK by 22 July 2013. Third country requirements will become fully effective from 2018 (when national placement rules are to be phased out).

AIFMD is now at the 'Level 2' stage, when national regulators formulate more detailed rules with the European Commission. The European Commission has circulated a draft delegated regulation for implementing AIFMD to national regulators and the European Parliament, although a copy has not yet been made publicly available. The Alternative Investment Management Association (AIMA) recently published a paper highlighting the divergences between the draft regulation and ESMA's November 2011 advice to the Commission.

In January 2012 the Financial Services Authority (FSA) published a discussion paper which aims to assist firms towards 'AIFM-readiness'. In February 2012 the European Securities and Markets Authority (ESMA) also published a discussion paper tackling some of the key issues on scope. Responses to both papers have now closed. In March 2012 HM Treasury issued an informal consultation on high level policy options for implementing AIFMD (closing on 4 May).

Comments

The FSA and ESMA discussion papers may help corporate real estate groups, listed (with or without REIT status) or unlisted, as well as real estate holding subsidiaries of a real estate fund and joint ventures, to determine whether or not AIFMD applies to them. They will need to consider the following:

1. Am I an Alternative Investment Fund (AIF)? In particular a real estate company may not be a 'collective investment undertaking' and may not have a 'defined investment policy'.
2. If I am an AIF, do I fall within an exemption? The holding company exemption may be useful here.

This is particularly important as AIFMD definitions are being used in other contexts, for instance in EMIR on OTC Derivatives and in proposals for financial sector taxation.

Financial Regulation Reforms – changing structures in the UK

In the UK, the FSA will be abolished and replaced with:

- the Financial Policy Committee (FPC), a new committee of the Bank of England responsible for macro-prudential regulation;
- the Prudential Regulation Authority (PRA), a new subsidiary of the Bank of England, responsible for micro-prudential regulation of authorised firms with significant prudential requirements; and
- the Financial Conduct Authority (FCA), a new body responsible for ensuring market confidence and consumer protection.

Timing

The 'twin peaks' micro-regulation model was implemented within the FSA on 2 April 2012. The subsequent abolition of the FSA will occur early in 2013.

Comments

The structure of UK financial regulation is changing with the establishment of new regulatory bodies. In the EU various new regulatory bodies have all now been established: the ESMA, the European Systemic Risk Board (ESRB), the European Insurance and Occupational Pensions Authority (EIOPA) and the European Banking Authority (EBA).

The changes will impact on all regulated firms. Firms should expect to have additional costs during the transitional period, for example in tracking the new legislation introduced to establish the new bodies and changes to internal systems to allow for reporting to the new entities.

Solvency II

Solvency II is a fundamental review of the capital adequacy regime for the European insurance industry. It aims to establish a revised set of EU-wide capital requirements and risk management standards that will replace current solvency requirements. Solvency II brings in capital requirements for insurers similar to those imposed on banks in Basel III.

The Directive uses statistical theory and analysis to apply 'shock testing' to different asset classes (including real estate) to determine capital requirements. The higher the perceived risk of an asset class, the more capital the insurer needs to set aside to ensure that, if its value falls, the insurer's ability to cover all its notional liabilities to policyholders is not affected. This may well encourage insurance companies to alter their asset allocation: if looking to reduce or minimise their solvency capital requirement, insurance companies are likely to consider using products with lower capital requirements (such as unit-linked funds rather than their own balance sheet products) or restrict investment to more capital efficient assets such as property lending and away from equities and property itself.

Timing

Implementation of Solvency II is expected to be postponed from 31 October 2012 and split (known as 'bifurcation'), with member states' transposition in January 2013 and implementation for firms in January 2014.

The FSA will be open for applications for internal models from 30 March 2012 to mid 2013. For those intending to use their own internal models, the FSA will take applications from 1 January 2013 (but may exercise its discretion to deal earlier with more complex issues).

FSA and HM Treasury consultations in respect of UK implementation have recently closed. The FSA is expected to publish a second consultation paper in Q2 or Q3 2012.

EIOPA is expected to carry out an impact study to help determine the effect of the proposed solvency standards in Solvency II on defined contribution pension schemes.

Comments

Industry research (a joint initiative by INREV and IPD) released in April 2011 showed that proposed capital requirements for insurance companies investing in real estate (currently 25 per cent) was too high and the consensus was that a 15 per cent pan-European capital charge would be more realistic, with the possibility of a +/- 10 per cent dampener. There is a concern that no dampener for the real estate capital charge could lead to a requirement for additional capital in a falling property market and/or insurers having to sell property to maintain adequate capital ratios, which could then trigger further falls in property values.

Some recent developments on Solvency II's application in the real estate sector, include:

- unlisted real estate funds are likely to be treated on a 'look through' real estate basis of 25% with no +/- 10% dampener (and not modelled as 'private equity' with a 49% (+/- 10%) capital charge);
- REITs and other listed real estate companies are likely to be treated as 'equities', with a 39% (+/- 10%) capital charge and not 'real estate' (with a 25% capital charge); and
- it looks like lending against commercial real estate will be taken out of the 'mortgage lending' category (which attracts a very low capital charge) and put into the 'corporate lending' category (which attracts a much higher capital charge). Although this is not the attractive regulatory treatment originally advocated by Solvency II, and which has been cited as a reason for insurers to increase their lending to real estate, it is unlikely to deter insurers so long as the commercial case for them to provide debt finance remains strong.

US Investment Advisers Act

The US Investment Advisers Act of 1940 was amended on 21 July 2010 as part of the Dodd-Frank reforms. The amendments mean that many investment advisers to private investment funds will now have to register with the US Securities and Exchange Commission (SEC). This applies even if they are already authorised by the FSA or another regulator. Recordkeeping and reporting obligations for registered and certain unregistered advisers will also increase.

The provisions may apply to some non-US real estate fund managers – where they have an office or presence in the US at which they provide 'investment advisory services', or have US investors or US entities they manage and where they cannot rely on an exemption.

Timing

The deadline for investment advisers required to register with the SEC is 30 March 2012 (delayed from a 21 July 2011 deadline). However, investment advisers should have filed completed forms by 14 February 2012 to allow time for processing.

Those relying on certain exemptions (i.e. the private fund adviser exemption or the venture capital exemption) such that they are 'exempt reporting advisers' (ERA) must file an abbreviated form ADV by 30 March 2012, but are otherwise not considered to be registered with the SEC. Registrations will be published on the SEC website and will therefore be publicly available.

Comments

If an investment adviser has no place of business in the US, then it will not have to register but may need to file as an ERA. A real estate adviser may be able to avoid filing as a ERA if either (i) it does not advise any US funds or US investors (or the assets under management attributable to such US investors are less than $25m in total) or (ii) its US investors are not in 'private funds'.

A real estate fund will generally not be a 'private fund' where its assets are not 'primarily' securities. 'Securities' includes shares but does not include direct real estate. It may include real estate held through joint ventures (generally either a controlling interest in a joint venture or a manager or a general partner interest is unlikely to be considered 'securities'). Real estate held through wholly or majority-owned subsidiaries, in corporates or other vehicles, is unlikely to be a security (and therefore not a 'private fund'). Mortgages secured by real estate may also not be a 'private fund'.

The analysis is highly fact intensive – however, if a fund only holds real estate through wholly-owned subsidiaries or majority owned subsidiaries that it controls, this is likely not to be a 'private fund'.

US regulatory reform – the Volcker Rule

The Volcker Rule amends the Bank Holding Company Act. It prohibits any 'banking entity' from sponsoring and/or acquiring or retaining an ownership interest in a 'covered fund'. A 'banking entity' includes any insured depository institution, any company that controls an insured depository institution (for instance, a bank holding company), any foreign banking organisation that is subject to the Bank Holding Company Act (for example, a foreign bank that maintains a branch or agency in the US) and any subsidiary or affiliate of one of these entities. There is an exemption that permits foreign banking organisations to invest in a foreign fund that meets various requirements.

Investment advisers that are not banking entities or affiliated with a banking entity are not subject to these rules. However, these rules may mean certain investors cannot invest in certain funds.

Timing

The Volcker Rule becomes effective on 21 July 2012, following which there is a two year conformance period, with the possibility of up to three extensions of one year each. There is also a possible one-off additional conformance period of up to five years for certain contractual commitments in effect on 1 May 2010 and related to funds that invest in illiquid assets (i.e. real estate).

Comments

Fund managers that are banking entities or affiliates of banking entities must determine whether their fund sponsorship activities will be limited by the Volcker Rule. More generally, even if a fund manager is not subject to the Volcker Rule, if the manager intends to market a fund to US investors or to make US investments, it should consider whether any of its investors may be subject to the Volcker Rule. Subject to any applicable exemptions, an investor who is subject to the Volcker Rule will not be entitled to invest if the fund engages in certain investments or other activities in the US or where either:

- the fund has been marketed in the US; or
- the fund already has US investors.

The Chancellor of the Exchequer has expressed concern over the Volcker Rule, as have the Investment Management Association and the European Banking Federation (in particular its extra-territorial application and also the breadth of the definition of 'covered funds').

LEGAL DEVELOPMENTS – BANKING

European Market Infrastructure Regulation (EMIR) on Over the Counter (OTC) derivatives

EMIR will apply to those OTC derivative contracts which ESMA considers should be centrally cleared through authorised central counterparties (CCPs). If a real estate business is a 'financial counterparty' (or a clearing 'non-financial counterparty') it will be required to clear trades in those contracts through a CCP. Those trades will need to have 'highly liquid' collateral (not real estate) posted and trades will also need to be reported to trade repositories. There will be detailed conduct of business requirements for CCPs and trade repositories.

Different rules apply where OTC derivative contracts are not subject to mandatory clearing by a CCP. Businesses caught will need to put risk management techniques in place, designed to manage operational and credit risk, including daily marking-to-market of uncleared derivative positions, increased use of electronic confirmation and increased transparency requirements.

OTC derivative contracts entered into before EMIR comes into force should be excluded. It is proposed that pension schemes would be exempt from a clearing obligation for a period of three years, extendable by another two years plus one year, subject to reports justifying the deferrals.

Timing

The European Parliament has adopted EMIR and has published the text and a set of frequently asked questions. The European Supervisory Authorities must now submit technical standards to the Commission by 30 September 2012. ESMA has already started this process. The Commission is due to adopt the standards by the end of 2012. CPPs then have six months following adoption to apply for authorisation.

EMIR will have direct national effect once it is adopted in Europe.

Comments

EMIR will increase the cost of debt without any apparent benefit, as real estate investors generally use derivatives and swaps (i.e. hedging interest rate and currency risks) to reduce risk rather than for speculative purposes.

For a real estate sector business which is caught by EMIR:

- standardised swap activities (determined by ESMA) may need to be cleared through external exchanges, with appropriate liquid collateral (real estate does not currently count) and reporting; and
- it will have to have risk management procedures in place, including the marking-to-market of outstanding contracts on a daily basis.

One important area is who is a 'financial counterparty' and therefore within the scope of EMIR. EMIR includes for these purposes AIFs managed by an AIFM within AIFMD, as well as banks and other financial institutions. Therefore ESMA's current discussion paper on AIFMD (referred to above and which had a 23 March deadline for comments) will have application to whether or not real estate businesses are also within the scope of EMIR.

Basel III (to be implemented by changes to the Capital Requirements Directive)

Basel III proposals relate to requirements for banks to hold more and better capital and to hold a minimum of assets in highly liquid form, such as government bonds.

The key question is what effect the new rules will have on the cost and availability of credit and bank profitability. The cost of capital will inevitably increase and this will be passed on to borrowers. Certain lending activities will carry higher capital costs: development finance, for example, is likely to be approached with even more caution by banks in the future.

The proposed rules have been criticised by researchers at the Bank of England as too weak, and that a capital ratio which is at least twice as large as that agreed upon in Basel (7 or 8 per cent of a bank's risk weighted assets) would provide optimal protection against future economic shocks.

Timing

To be implemented through changes to the Capital Requirements Directive. To be phased in over a five-year period from 2013.

Comments

As most banks continue to downsize their property loan books, the additional pressure imposed by Basel III is likely to exacerbate the shrinking of available debt for the property sector. On the positive side, this situation could encourage new entrants to the loan market. It could also encourage banks to mitigate their positions, by selling off or otherwise reducing the amount of riskier assets held (for example, by turning to corporate bonds) without significantly harming earnings.

The issue of insufficient liquidity in the market place is further exacerbated by the FSA recently revising its guidelines in respect of capital requirements for real estate loans. Those guidelines require loans to be 'slotted' into certain risk categories which carry increasing risk weighting as the loans' risk default increases. Under that system, which is presently being reviewed, the majority of UK commercial property loans would require as much as 250% risk weighting when calculating the attributable regulatory capital. Banks which are using their own models, as opposed to 'slotting', to determine risk weightings are being criticised because the FSA believes that the models lead to lenders being insufficiently risk adverse when making UK property loans. The FSA is considering industry feedback.

LEGAL DEVELOPMENTS – TAX

The Real Estate Investment Trust (REIT) Regime

Proposed changes to the REIT regime intended to make it more accessible, include:

- abolishing the two per cent entry charge payable by a company on joining the REIT regime;
- permitting listings on stock exchanges such as AIM; and
- relaxing the diverse ownership requirement.

A consultation was published in April 2012 on social housing REITs and on the tax treatment of REITs investing in REITs.

Timing

Changes due to take effect on the date of Royal Assent to the Finance Bill 2012 (in July 2012).

Comments

Both existing REITs and those that own corporatised real estate with a large inherent gain will be very pleased that the entry charge is being abolished.

When a company joins the REIT regime any capital gains it is carrying forward disappear.

The owner of such an investment would still need to manage any gain on the sale of their shares to a REIT but would no longer be selling a company the value of which was encumbered by a large inherent gain. Obviously a deal would remain to be done between the REIT and the vendor, but in future a REIT would be an even more likely purchaser of such vehicles than now.

Controlled Foreign Companies (CFCs)

HM Treasury and HMRC published a response to the June 2011 consultation on full reform of the CFC rules.

The aim of the proposed new regime is to target only those circumstances that result in artificial diversion of UK profits.

The challenge is to identify such instances whilst exempting all others with the minimum compliance burden.

Broadly, a CFC charge will arise only if a foreign company is controlled from the UK, none of a number of entity level exemptions apply, and the CFC has chargeable profits as defined by the so-called gateway.

The gateway identifies those profits (if any) that are artificially diverted from the UK and which, therefore, pass through the gateway and become subject to the CFC charge.

If, in applying the gateway, there are no chargeable profits, no CFC charge arises.

Timing

The government will continue to consult with businesses and the current working groups will continue to meet.

The final draft legislation will be included in the Finance Bill 2012

Comments

There is concern that the purported improvements to the regime have created greater complexity.

The gateway is a complex charging provision which requires a detailed transfer pricing analysis and is perhaps not focused enough on profits being artificially diverted from the UK.

The specific exemptions require complex calculations to be undertaken.

Proposed Financial Transactions Tax (FTT)

The FTT was proposed in the European Commission's budget proposal for 2014-2020. The objective is to 'recover the costs of the recent and future financial crises', correct 'undesirable' market behaviour, particularly high frequency trading and curb excess volatility.

Timing

Depends on when the Council of Europe adopts the proposals. It could apply from January 2014.

Comments

Apart from this being a very hot political potato for the City, there is also concern over the application of this proposed tax to the property industry, by virtue of those who are caught in AIFMD as AIFMs and AIFs also being included in the definition of 'financial institutions' in other proposed European legislation.

AIMA (the Alternative Investment Management Association) believes the introduction of the FTT could undermine the EU single market by causing a decrease of cross-border trading in the EU. It is also concerned that investment managers would invest less in equities and more in derivatives because of bias in the proposed rates; that the foreign exchange markets would transform and that business could migrate away from the EU and transform into less transparent forms.

LEGAL DEVELOPMENTS – COMPETITION

Real Estate Transactions and Competition Law

In certain circumstances real estate transactions may be subject to review by the UK competition authorities where the turnover of the target business exceeds £70 million or a certain 'share of supply' test is met. The Office of Fair Trading (OFT) can investigate a relevant merger and can refer it to the Competition Commission (CC) for in-depth investigation if there is a risk that it may result in a substantial lessening of competition in the market. In making its determination, the OFT tends to frame its competition analysis within defined product and geographic markets. This process can have significant consequences on the timing and costs of a transaction.

Under the Enterprise Act 2002, for a merger situation to arise 'two or more enterprises cease to be distinct'. The issue of when a property transaction involves the acquisition of an 'enterprise' or 'business' is often unclear. According to OFT guidance, 'the transfer of physical assets alone may be sufficient to constitute an enterprise: for example where the facilities or site transferred enables a particular business activity to be continued'. Recent case law concerning the acquisition of a shopping centre has highlighted this issue.

Timing

On 14 March 2012 the OFT cleared Capital Shopping Centre's (CSC) recent shopping centre acquisition (and did not refer it to the CC). The text of the OFT's decision was published on 21 March 2012.

Comments

It is apparent that real estate transactions are increasingly being scrutinised by competition authorities. This illustrates the importance of taking a proactive approach to monitoring and assessing competition law implications on transaction planning. Potential consequences of being caught by these rules include increased costs, delays and even divestment.

In January 2012, the OFT announced its investigation into CSC's (a developer, owner and manager of regional shopping centres) November 2011 acquisition of the Broadmarsh Shopping Centre in Nottingham. CSC also owns the Victoria Centre mall in Nottingham. Ultimately, the OFT has decided not to refer this matter to the CC. The OFT concluded that the acquisition was unlikely to result in substantial lessening of competition because there was only a limited degree of competition between the two centres prior to the merger. There was also evidence that the shopping centres would continue to face competition from other retail locations in central Nottingham.

This is not the first time the OFT has considered this kind of acquisition. In early 2011 it undertook a detailed review into CSC's acquisition of the Trafford Shopping Centre in Manchester vis-à-vis any area of overlap with the Arndale Centre in Manchester. In this case the OFT took the view that this constituted an acquisition of a business and that the shopping centre is a 'two-sided' market between tenants and shoppers. However, it concluded in June 2011 that these two shopping centres were not seen to be substitutes for tenants and shoppers and that there was no substantial lessening of competition as a result of the transaction (and it did not refer this case to the CC).

UK Consensus Forecasts February 2012

The IPF UK Consensus Forecast of the All Property total return for 2012 has fallen since the last survey, from 4.5% to 1.6%, compared to a likely 7.8%[1] outcome for 2011 (close to last November's Consensus forecast of 7.5%). Negative capital value growth in the coming year, first registered in the previous quarter's survey, is expected to be significantly greater than originally anticipated. Capital markets confidence is being impacted by economic constraints and compounded by the crisis within the eurozone. Previously unthinkable, an orderly withdrawal of Greece from the euro is now being included in economic forecasting scenarios. On the positive side, respondents appear to consider 2012 as the nadir of this cycle, with values predicted to recover slowly in the later years of the forecast period.

Key points

Negative capital value growth forecast suppresses total return expectations

- The fragile sentiment for the capital markets has grown appreciably weaker over the past three months, with the expectation that All Property capital value growth may fall by as much as 4.6% in the current year. With weakly negative 2012 rental value growth figures for all but the Office sector compounding the situation, the All Property total return forecast is 1.6%. A slow recovery in subsequent years of the forecast produces a five-year average total return approximating the implied income yield of 6.4%.
- At the sector level, Offices continue to lead potential performance across all three measures although also attracting the widest divergence of views from contributors, especially in relation to capital growth prospects.
- Standard retail, as the only sector where the mean average total return over five years falls below the All Property average (5.7% as against 6.4%), appears to have a disproportionate influence on the total returns average.

Markets to improve in 2013

- All contributors are in agreement that 2012 will be the bottom of the current property market cycle, when both occupational and investment market weaknesses coincide to deliver disappointing performance.

Rental growth forecasts improve towards end of quarter

- Data received in February show an improved outlook for rental growth in the last two years (2015-2016) of the forecast period, contrasting with a more pessimistic view on the prospects for 2013 and 2014 from January contributors. Capital value growth and total return forecasts are better aligned throughout.

Economic background

The latest Gross Domestic Product (GDP) preliminary estimate[2] reports a worse than expected drop of 0.2% in the fourth quarter of 2011, driven by weakness in the production industries (-1.2%) and construction sector (-0.5%), whilst service industries were unchanged. The public sector strike on 30 November is likely to have had some impact on GDP in the fourth quarter, although it is not possible to measure the effect directly. HM Treasury's comparison of independent forecasts of GDP growth[3] reports an average of new forecasts of 0.5% for 2012 rising to 1.8% in 2013. Amongst the components of 2012 GDP growth, on balance private consumption is expected to make a weak contribution, countered by government consumption turning negative, as domestic demand also makes a modest recovery along with fixed investment; the net trade position is also forecast to be weakly positive.

On the prices and monetary front, following the announcement that Consumer Price Index (CPI) inflation in the 12 months to January was 3.6%, the Governor of the Bank of England wrote to the Chancellor[4], as required by the monetary policy remit, explaining that the factors that temporarily pushed up inflation are now waning. CPI inflation, having peaked in September 2011 at 5.2%, as predicted, has fallen back to 3.6% in January (from 4.2% in December 2011). The impact of the increase in VAT in January 2011 (estimated to have added 0.76% to the CPI one-month change in that period) contributed to the sharp decline in the latest figure. In addition, the contributions of petrol and food prices have also diminished since September. The expectation is that CPI inflation will continue to fall to around the target of 2.0% by the end of 2012, due to declining contributions from petrol prices and any remaining VAT impact, together with cuts to domestic energy prices. Upward pressure from previous energy and import price rises should weaken further and the margin of spare capacity built up in the economy should continue to suppress wages and prices beyond that.

At its February meeting, the Monetary Policy Committee (MPC) increased the size of its asset purchase programme (quantitative easing – QE) by a further £50bn, bringing the total to £325bn while maintaining Bank Rate at 0.5%. Market interest rates suggest that the timing of the next Bank Rate rise has been pushed out once more. The provision by the European Central Bank of three-year loans against an expanded pool of collateral appreciably eased some of the most immediate funding challenges to the European banking system but high sovereign debt yields in several eurozone countries remains an issue.

Other headlines from the ONS release of data include that the value of retail sales, which rose 0.9% in January compared with December, was much stronger than forecast as many had expected sales volumes to fall. On an annualised basis, this represented an increase of 4.4% compared with January 2011 as the hard-pressed consumer went bargain-hunting, with strong sales recorded for furniture and sports goods being steep discounts. Sales volumes in January 2012 increased 2.0%

1 IPD Quarterly Index 2011

2 ONS 25 January 2012

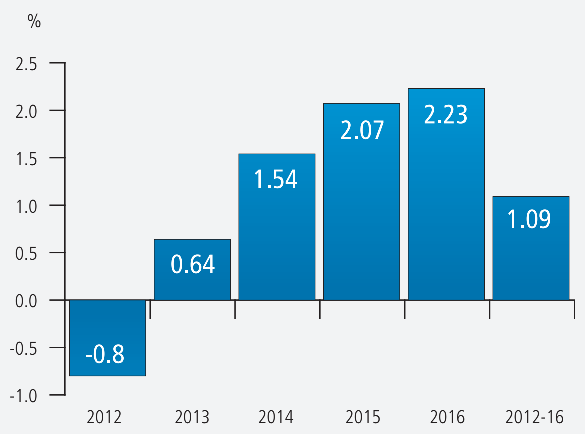
3 HM Treasury Forecasts for the UK economy: 15 February 2012

4 Letter from Governor to Chancellor 13 February 2012 compared with January 2011 albeit driven primarily by non-store retailing (mail order and internet), other stores and predominantly food stores.

On the labour market front, the unemployment rate is now 8.4% of the economically active population, up 0.1% on the quarter, accounting for 2.67m people. This is the highest unemployment rate since 1995. The current inactivity rate for those aged from 16 to 64 is 23.1%, down 0.2% on the quarter, representing 9.29m economically inactive people within this age range. Total wages (including bonuses) rose by 2.0% over the last 12 months, unchanged on the three months to November 2011. Regular pay (excluding bonuses) rose by 2.0% on a year earlier, up 0.1% on the three months to November 2011.

The current economic environment remains distinctly challenging for businesses and households, with only the prospect of declining inflation to brighten up an otherwise gloomy outlook.

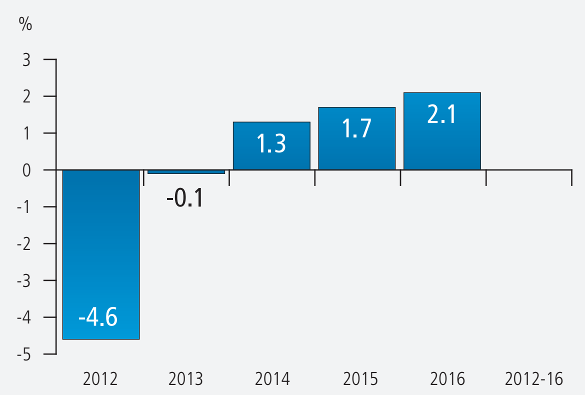
Figure 1: All Property rental value growth forecasts



The returns submitted for the first quarter of 2012 show rental growth dipping into negative territory for the current year (the previous forecast average having been a weak, but positive, 0.58%). However, 2012 appears to be a nadir with a projection of steady improvement over the next four years as the occupational market is expected to strengthen.

The impact of 2012 is reflected in the lowered five-year average forecast (down from 1.58% at Q4 2011).

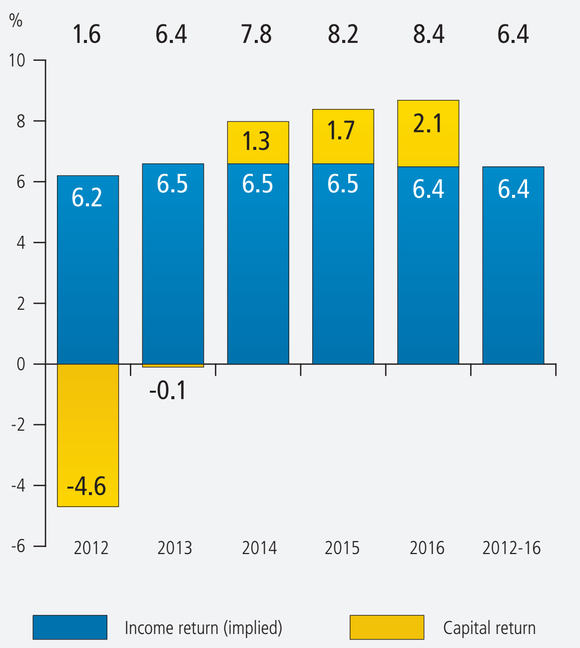
Figure 2: All Property capital value growth forecasts



The graph provides a stark illustration of the anticipated dip in the property market in 2012, with the average forecast suggesting All Property capital values may fall by over 4.5% this year, compared to a drop of 1.7% projected last November. Clearly, concerns over the economy have grown during the quarter, with growth prospects being suppressed by the current programme of austerity measures.

However, there is an expectation of a return to positive growth from 2014 onwards, although the severity of the anticipated drop in the near term negates this recovery when taking a five-year view.

Figure 3: All Property total return forecasts



The All Property total return average forecast for 2012 has fallen significantly since the last report (down from 4.5%), driven by the expectation of substantial falls in capital values, as demonstrated by the negative capital value growth forecasts illustrated above.

This year's total return is heavily impacted by the negative capital value growth forecast but, as previously predicted, will not be sustained, with 2013 expected to virtually flat in terms of capital growth. The five-year average total return forecast has continued its decline however, falling by 87 bps from 7.24% per annum at November last.

Notwithstanding a weakened occupational market, rental income returns are projected to remain relatively stable throughout all time horizons.

All Property survey results by contributor type

(Forecasts in brackets are August 2011 comparisons)

Figure 4: Property advisors and research consultancies (12 contributors)

	Rental value growth %						Capital value growth %						Total return %					
	2012		2013		2014		2012		2013		2014		2012		2013		2014	
Maximum	1.2	(2.2)	2.4	(3.6)	3.1	n/a	0.1	(2.3)	3.4	(3.0)	4.8	n/a	6.0	(8.4)	10.0	(9.4)	11.6	n/a
Minimum	-2.2	(-2.2)	-1.3	(-1.0)	-0.5	n/a	-8.0	(-8.2)	-2.2	(-0.3)	0.1	n/a	-2.2	(-2.4)	4.2	(6.4)	6.7	n/a
Range	3.4	(4.4)	3.7	(4.6)	3.6	n/a	8.1	(10.5)	5.6	(3.3)	4.7	n/a	8.2	(10.8)	5.8	(3.0)	4.9	n/a
Median	-0.6	(1.1)	1.1	(2.2)	2.2	n/a	-3.5	(-0.1)	0.6	(1.3)	1.4	n/a	2.8	(6.0)	6.9	(7.8)	7.7	n/a
Mean	**-0.4**	**(0.7)**	**1.0**	**(1.9)**	**2.0**	**n/a**	**-3.2**	**(-1.2)**	**0.4**	**(1.5)**	**1.5**	**n/a**	**2.8**	**(4.9)**	**6.8**	**(8.0)**	**8.1**	**n/a**

Figure 5: Fund managers (14 contributors)

	Rental value growth %						Capital value growth %						Total return %					
	2012		2013		2014		2012		2013		2014		2012		2013		2014	
Maximum	0.9	(1.9)	2.0	(3.3)	2.8	n/a	-0.1	(1.4)	7.0	(7.4)	5.9	n/a	5.8	(7.4)	13.5	(13.7)	12.1	n/a
Minimum	-2.7	(-2.0)	-1.6	(0.0)	-1.5	n/a	-9.7	(-5.1)	-4.7	(-1.4)	-1.2	n/a	-3.9	(0.6)	1.5	(4.8)	4.9	n/a
Range	3.6	(3.9)	3.6	(3.3)	4.3	n/a	9.6	(6.5)	11.7	(8.8)	7.1	n/a	9.8	(6.8)	12.0	(8.9)	7.2	n/a
Median	-1.3	(0.9)	0.5	(2.0)	1.4	n/a	-6.0	(-2.0)	-1.6	(1.1)	0.9	n/a	0.1	(4.5)	5.0	(7.3)	7.5	n/a
Mean	**-1.1**	**(0.6)**	**0.3**	**(1.7)**	**1.2**	**n/a**	**-5.7**	**(-2.1)**	**-0.5**	**(1.3)**	**1.1**	**n/a**	**0.5**	**(4.1)**	**6.0**	**(7.7)**	**7.6**	**n/a**

Figure 6: All forecasters 26 contributors)

	Rental value growth %						Capital value growth %						Total return %					
	2012		2013		2014		2012		2013		2014		2012		2013		2014	
Maximum	1.2	(2.2)	2.4	(3.6)	3.1	n/a	0.1	(2.3)	7.0	(7.4)	5.9	n/a	6.0	(8.4)	13.5	(13.7)	12.1	n/a
Minimum	-2.7	(-2.2)	-1.6	(-1.0)	-1.5	n/a	-9.7	(-8.2)	-4.7	(-1.4)	-1.2	n/a	-3.9	(-2.4)	1.5	(4.8)	4.9	n/a
Range	3.9	(4.4)	4.0	(4.6)	4.6	n/a	9.8	(10.5)	11.7	(8.8)	7.1	n/a	9.9	(10.8)	12.0	(8.9)	7.2	n/a
Std. Dev.	1.1	(1.1)	1.1	(1.1)	1.1	n/a	2.9	(2.5)	2.5	(1.7)	1.6	n/a	2.9	(2.5)	2.5	(1.7)	1.6	n/a
Median	-1.0	(1.0)	0.6	(2.0)	1.8	n/a	-4.3	(-1.4)	0.1	(1.1)	1.0	n/a	1.7	(4.6)	6.5	(7.3)	7.6	n/a
Mean	**-0.8**	**(0.6)**	**0.6**	**(1.7)**	**1.5**	**n/a**	**-4.6**	**(-1.7)**	**-0.1**	**(1.3)**	**1.3**	**n/a**	**1.6**	**(4.5)**	**6.4**	**(7.7)**	**7.8**	**n/a**

Notes

1. Figures are subject to rounding and are forecasts of All Property or relevant segment Annual Index measures published by the Investment Property Databank. These measures relate to standing investments only, meaning that the effects of transaction activity, developments and certain active management initiatives are specifically excluded. **2.** To qualify, all forecasts were produced no more than 12 weeks prior to the survey. **3.** Maximum: The strongest growth or return forecast in the survey under each heading. **4.** Minimum: The weakest growth or return forecast in the survey under each heading. **5.** Range: The difference between the maximum and minimum figures in the survey. **6.** Median: The middle forecast when all observations are ranked in order. The average of the middle two forecasts is taken where there is an even number of observations. **7.** Mean: The arithmetic mean of all forecasts in the survey under each heading. All views carry equal weight. **8.** Standard deviation: A statistical measure of the spread of forecasts around the mean. Calculated at the 'All forecasters' level only. **9.** There were no equity broker contributions this quarter. **10.** The sector figures are not analysed by contributor type; all figures are shown at the all-forecaster level. **11.** In the charts and tables, 'All Property' figures are for the full 26 contributors, while the sector forecasts are for the reduced samples (22/24) of contributors.

Acknowledgements

The Investment Property Forum would like to thank all those organisations who contributed to the IPF UK Consensus Forecasts for Q1 2012, including the following:

Property advisors (including research consultancies): Capital Economics, CBRE, Cluttons, Colliers International, Drivers Jonas Deloitte, DTZ, Fletcher King, GVA, Jones Lang LaSalle, Paul Mitchell Real Estate Consultancy Limited, Real Estate Forecasting Limited, Strutt & Parker.

Fund managers: Aberdeen Asset Management, Aviva Investors, AXA Investment Managers, CBRE Global Investors, Cordea Savills, F&C REIT Asset Management, Henderson Global Investors, HSBC Global Asset Management, Ignis Asset Management, LaSalle Investment Management, Legal & General Property, PRUPIM, SWIP, Standard Life Investments.

Note

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

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

Disclaimer

The IPF Survey of Independent Forecasts for UK Property Investment is for information purposes only. The information therein is believed to be correct, but cannot be guaranteed, and the opinions expressed in it constitute our judgment as of the date of publication but are subject to change. Reliance should not be placed on the information and opinions set out therein for the purposes of any particular transaction or advice. The IPF cannot accept any liability arising from any use of the publication.

A step forward in measuring sustainable property investment

Jess Stevens, Sustainability Risk Analyst, IPD

As a result of current regulatory pressure, and increasing public and media attention, sustainability issues are becoming ever more prominent in the commercial property market, with market leaders beginning to recognise the significance of these risks when making important investment decisions.

Recognising the need to try and quantify these risks, the IPF commissioned IPD in 2009 to establish a measurement of sustainable property investment performance. This led to the development of the IPD Sustainable Property Indicator (ISPI), now sponsored by the IPF, K&L Gates and CBRE. It was produced to track the financial performance of the more sustainable properties in the UK and provide a benchmark to enable comparison with the performance of less sustainable properties.

In order to build on this initial research, IPD and a group of some of the UK's largest investors (AVIVA Investors, Henderson Global Investors, Hermes Real Estate Investment Management, Legal & General Property and PRUPIM) have joined together with the RICS and CBRE to define a set of relevant environmental questions, aimed at further developing and supporting the measurement of sustainable property investment. These questions, launched by IPD on 29 February 2012 at CBRE's Sustainability Breakfast Seminar, focus on identifiable environmental risks thought likely to impact asset and portfolio values, as well as performance. The answers to these questions will provide the industry with a new and improved index of sustainable properties (ISPI version 2.0) and a benchmarking service (IPD's UK Eco-Portfolio Analysis Service, EcoPAS).

The data collection process for EcoPAS is practical yet meaningful and is shared by IPD, investors and valuers. The valuation profession is currently under growing pressure to reflect sustainability considerations in building valuations. By including the collection of data on a limited set of environmental variables during valuers' regular site inspections, investment-related environmental data can be provided to clients and IPD at the same time as the investment-related information they send currently. The RICS is supporting this new initiative and encouraging all valuers to collect and consider sustainability factors when undertaking appraisals. The IPF is also continuing to support this research, for which IPD is most grateful.

Forum activities and announcements

IPF Executive

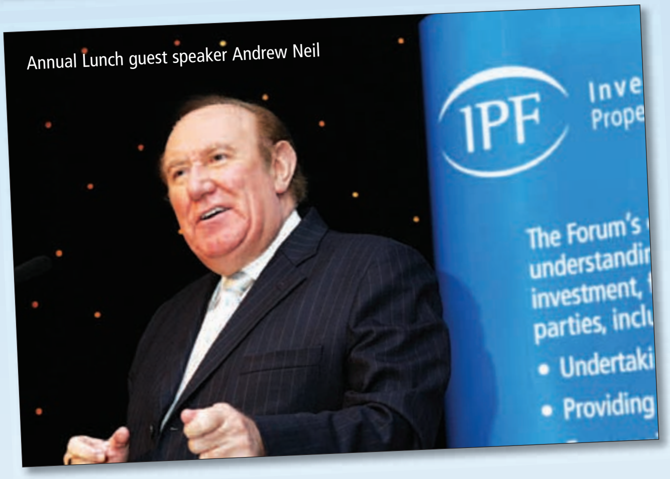
We are sorry to see Suleen Syn leaving the IPF after six years. Suleen has decided to become a stay-at-home mum to her two small boys.

We are in the process of recruiting a new Educational Events Manager, but in the meantime queries etc can be directed to Barbara Hobbs, Frankie Trailor or to the Events inbox events@ipf.org.uk

IPF Chairman Phil Clark

IPF Annual Lunch 2012

The Annual Lunch took place on Friday 27 January 2012 at the Hilton Park Lane, London W1. Andrew Neil was the after Lunch speaker. This event was kindly sponsored by Chase & Partners, Langham Hall and Valad.



Annual Lunch guest speaker Andrew Neil

Investment Education Programme

The Investment Education Programme 2011-12 is in full swing, with a further three modules being offered in this cycle. The next module will be Indirect Property Investment, taking place on 29-31 May.

If you are interested in taking a single module from this cycle, or following the full diploma in 2012-13, further information can be found on the IPF website.


IPF Diploma holders

We are delighted at the continuing popularity of the IPF Diploma. 13 students completed the Diploma in 2010-11, and 10 were at the Annual Lunch to collect their Diplomas in person.

Diplomas 2010–11

This year, the John Whalley Prize for best overall performance in the Diploma was awarded to Nicholas Clayton of MGPA. Hilke Nijmeijer of ING Real Estate won the Module Award for best performance in a single module (Part II).

IPF Diplomas awarded 2010-11

Alp Alkas
Jones Lang LaSalle Ltd

Mark Briggs
Scottish Widows Investment Partnership

Nicholas Clayton
MGPA

Jana Fleurkens
Standard Life

Haseeb Hassan
Scottish Widows Investment Partnership

Sonya Kapur
BNP Paribas Real Estate

Carissa Kilgour
Deloitte

Bryan Lewis
The British Land Company Plc

Hilke Nijmeijer
CBRE Global Investors

Ted Roy
Standard Life Investments

Christopher Shorrock
CB Richard Ellis Ltd

Dylan Tudor-Williams
Strutt & Parker

Damon van Oss
CBRE Global Investors

Module Prize winner Hilke Nijmeijer with John Story and Phil Clark

LinkedIn

The IPF has created a number of LinkedIn groups. If you would like to join, just search on 'Investment Property Forum Members'

Next Generation

On 24 January, The Next Generation Group was pleased to welcome Philip Ross, CEO of The Cordless Group, to present to members at its second presentation and evening networking event. The event was well-attended, by young property professionals keen to hear Philip speak about the impact of new and emerging technologies on people, business and their use of buildings and spaces. Philip's engaging and lively presentation was well-received and included highlights from the most recent research report from Cordless Group's knowledge division UNWIRED, entitled 'Agility @ Work'.


Philip Ross

Philip founded Cordless Group in 1994. Cordless Group is a thought-leader in the impact of new technology on the behaviour of people and their use of buildings, predicting trends and shaping the future through innovative research, analysis and forecasting.

The Next Generation Group committee thanks all those who attended this successful and enjoyable event. The Next Generation Group runs a number of networking events every year for IPF members with 5-15 years experience in the industry. Please contact Barbara Hobbs, bhobbs@ipf.org.uk for more details.


IPD IPF UK Property Investment Awards Ten Year Risk Adjusted Return Award Joint Winners


IPD IPF UK Property Investment Awards Sustainability Data Submission Award winners


IPD IPF UK Property Investment Awards Data Quality Award winners

IPD/IPF UK Property Investment Awards

The 12th Annual Property Investment Awards were hosted by Berwin Leighton Paisner on 29 March. Peter Pereira Gray, former Chairman of the IPF, and Phil Tily, Managing Director IPD UK & Ireland presented the awards. These included one for the best risk adjusted returns over 10-years, the joint winners of which were Imperial Tobacco Pension Fund and British Airways Pension Fund.

IPD/IPF UK Property Investment Award winners	
Ten Year Risk Adjusted Return	Imperial Tobacco Pension Fund British Airways Pension Fund
Insurance Company Life Funds (above £100m and below £1,000m)	Friends Provident and Pensions
Insurance Company Life Funds (above £1,000m)	The Royal London Mutual Insurance Society Life Fund
Segregated Pension Funds (above £100m and below £350m)	Hampshire County Council Pension Fund
Segregated Pension Funds (above £350m)	South Yorkshire Pensions Authority
Balanced Pooled & Traditional Funds (£100m-£500m)	Royal & Sun Alliance General Fund
Balanced Pooled & Traditional Funds (above £500m)	Church Commissioners Total Real Estate
Small Balancer Funds (below £100m)	National Provident Life
Specialist Pooled Funds and Traditional Estates (below £500m)	The UK Logistics Fund
Specialist Pooled Funds and Traditional Estates (above £500m)	Airport Property Partnership
Sustainability Data Submission Award	Aberdeen Asset Management Hermes Real Estate Investment Management
Data Quality Award	Standard Life Investments Aberdeen Asset Management

About the Nick Tyrrell Research Prize

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

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

1. The Prize

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

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

2. Prize criteria

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

3. Submission of papers

- Papers should be submitted to the Secretary, as nominated by INREV, IPF and the SPR.
- Ideally, the Prize will be awarded to an unpublished paper, but papers may be considered that:
  - have been published in the academic or professional press no longer than one year before submission;
  - presented to a conference no longer than one year before submission; or
  - are being considered for publication at the time of submission.
- Papers that have been submitted for other prizes may only be considered with the explicit consent of one of the Judges.
- Sponsored pieces of work may be submitted with the consent of the sponsor, who should be acknowledged accordingly at the time of submission.
- Only completed research papers will be considered by the panel of judges.
- Proposals for papers may be submitted or discussed with the Secretary.

4. Timing

- Papers may be submitted to the Secretary or to any of the three sponsoring organisations. The Secretary will collect the papers and distribute to the Judges.
- The Judges are under no obligation to award the Prize, but the Prize may be awarded up to twice a year.
- There are two rolling deadlines for submission of papers: 31 May and 30 November of each year.
- Papers submitted between 1 December and 31 May will be considered by the Judges before 31 August each year. Papers submitted between 1 June and 30 November will be considered by the Judges before 28 February of each year.
- Any awards will be publicised in September or March respectively.

5. Management of the Prize

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

6. Fund raising

- Funds will be raised for the Prize from the following sources:
  - members of the sponsoring organisations;
  - special events, such as the Nick Tyrrell Memorial Seminar (the first Memorial Seminar took place on 12 October 2011); and
  - possibly through corporate donations at a later date.

7. Other issues

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

Judges (2012/13)

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

Secretaries (2012/13)

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

IPF Investment Property Forum

Annual Dinner 2012

Wednesday, 27 June
The Grosvenor House, Park Lane, London W1
18:30 Pre-dinner drinks 19:30 Dinner | Black Tie

Guest Speaker: Jonathan Edwards, CBE
Broadcaster & Former Olympic Triple Jumper

The finest triple jumper of all time, Jonathan Edwards is the former Olympic, Commonwealth, European and World Champion – and the current world record holder. He was an ambassador for the London Olympics bid and now sits on the board of LOCOG as their athlete representative – the highest profile ex athlete in a senior position outside of the Chairman.

Ticket price: £120 + VAT

£144 inclusive of VAT @ 20% per person

The ticket price excludes wine and other beverages.

For more information or to book, contact Barbara Hobbs on 020 7194 7920 or email bhobbs@ipf.org.uk