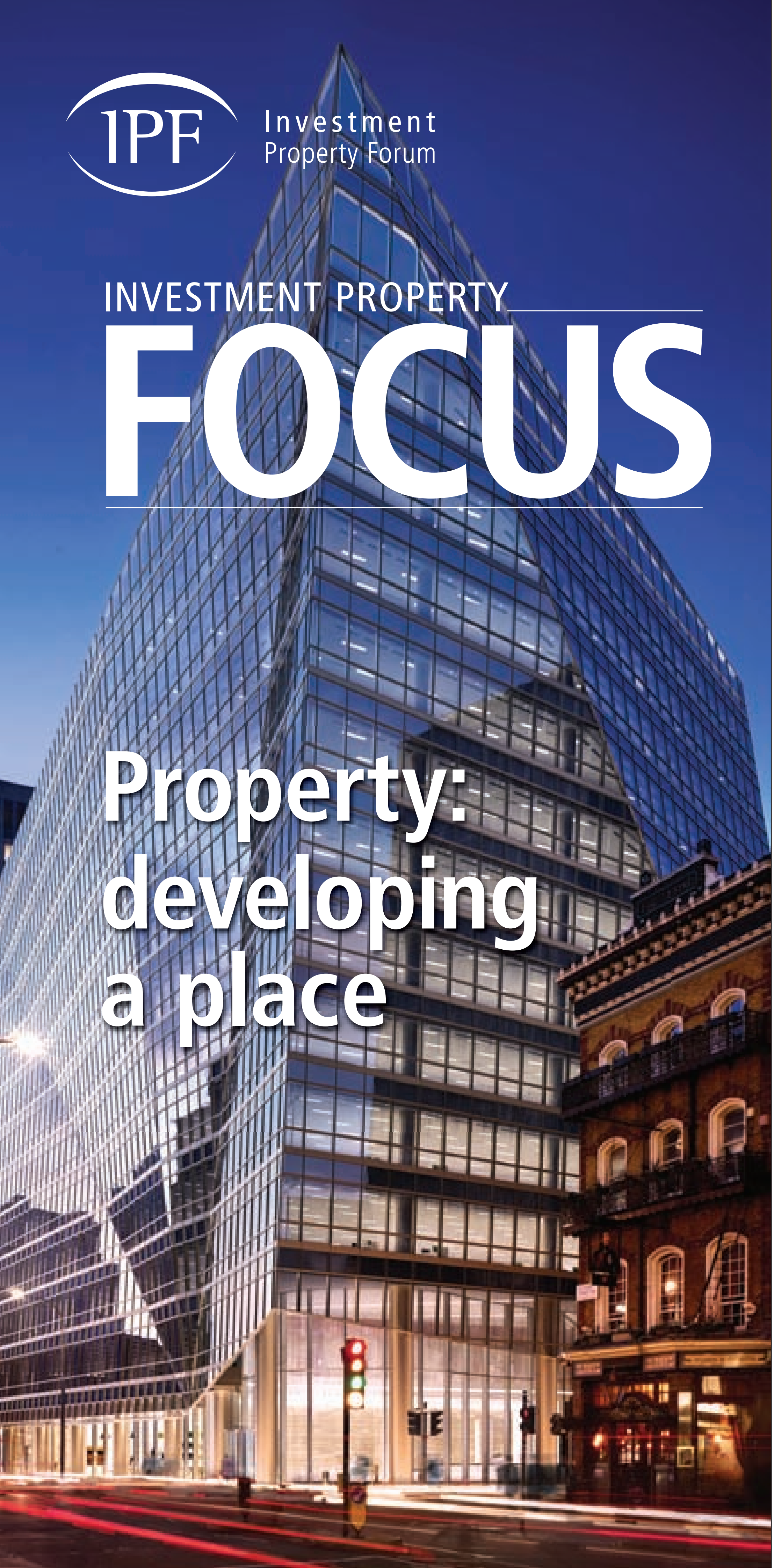

IPF Investment Property Forum

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INVESTMENT PROPERTY

FOCUS

Property: developing a place

In this issue:

Due for completion in May 2013, 62 Buckingham Gate represents another step in Land Securities' regeneration of Victoria, London SW1. Land Securities kindly arranged a site visit on 3 July for IPF members around its Victoria estate.

IPF Research Programme Sponsors

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.

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From the editor

Sue Forster, Executive Director, IPF

The IPF appoints a new Chairman every June and this year sees the instatement of **Amanda Howard**, who heads the Funds and Indirect Real Estate team at Nabarro. In this edition of Investment Property Focus, she discusses her priorities for 2012-13, including a closer engagement with the membership. Developing this theme, we are introducing an IPF Who's Who in Focus. To launch this, we asked four IPF Management Board members (Phil Clark, Andrew Hynard, Peter Pereira Gray and Neil Turner) a few property-related questions, leavened with some more personal ones.

Sustainability is one of the five priorities in the IPF Vision, approved last year. The IPF Research programme commissioned Sweett (formerly Cyril Sweett) to update the 2009 report 'Costing Energy Efficiency Improvements in Existing Commercial Buildings', incorporating the impacts of new and proposed regulations, incentives and Government initiatives. Richard Quartermaine of Sweett provides an overview of the research, shortly to be published as a full report.

The level of outstanding debt secured on commercial property in the UK remains of major concern, despite the fall of 6.8% in the total amount at year-end 2011 recorded in the fourteenth De Montford research report on lending patterns published in May 2012. Bill Maxted and Trudi Porter of De Montford University outline the key findings this year, including the increase in the proportion of debt due for repayment over the next five years (72%) compared with a year ago (69.5%). The research also identifies 4.4bn of debt that was sold – demonstrating the increasing removal of legacy debt from lending organisations' loan books.

Over the last eight weeks, the IPF, in conjunction with BGC Partners, has been running a property futures portfolio game for fund managers and investors. In this edition, Jon Masters of BCG Partners looks at how property futures can be used in risk management strategies, particularly given that Eurex is planning to introduce futures trading at IPD segment level. Risk management in the light of the eurozone crisis is changing investor interest in different European jurisdictions. David Neil and Philip Bjork of Genesta look at the most favoured markets to ascertain whether investor allocations are rational.

The attractiveness of UK property to investors was considered at the ninth annual IPF property Investment conference in Scotland. The views of the speakers: Paul Findlay of SWIP; John Swinney, a Cabinet Secretary in the Scottish Parliament; Amanda Howard of Nabarro; Joe Valente of J.P. Morgan; David Skinner of Aviva Investors; and Richard Donnell of Hometrack are summarised on pages 21-23.

Summaries of the IPF UK and European consensus forecasts for May 2012 are also included in this edition, together with an overview of IPF activities.

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Message from the Chairman

Amanda Howard, IPF Chairman

In challenging and uncertain times we realise the importance of fellowship and appreciate the opportunity to discuss and network with our peers. We are reminded that access to quality, objective research is central to our market and how important education is to the long-term future of our sector, and we welcome the opportunity to develop our own personal knowledge and understanding.

The IPF, as an individual members' organisation, is here to provide that fellowship, networking and access to quality research and education. We have a clear mission. Our focus is to enhance the understanding and efficiency of property as an investment for our members, the wider business community and at Westminster and beyond. This mission is now more important than it has ever been.

Our retiring Chairman, Phil Clark, has been instrumental in formulating and implementing our priorities this year, formalising them into our Vision statement and ensuring the IPF's activities are focused on addressing our priorities. He's also been actively engaged on the Property Industry Alliance's Debt Group. On behalf of the IPF membership, I'd like to thank Phil for all he's done for the IPF over the last year.

This year alone we've held over 40 seminars in London and 27 across the UK, all free to our members. We've held a number of events purely for informal networking, we've held our annual conference in Scotland, our 21st Brighton conference jointly with IPD and a number of panel discussions, including the recent Alastair Ross Goobey Memorial Lecture at which Paul Tucker, Deputy Governor of the Bank of England, was the keynote speaker.

We are now well into our 2011-2015 Research Programme. I'd like to particularly thank our 22 sponsor organisations for their continued support which allows us to deliver first-class, objective, thought-provoking research on a diverse range of topics.

Our Vision

The focus of the IPF of course evolves over time to meet the needs of our industry. Currently, our two top priorities are:

- Property finance – to enhance the understanding of how property is financed and funded, particularly in terms of bank debt, equity capital flows and the role of property derivatives.
- Legislation and regulation – to better appreciate the impact of the ever increasing body of legislation and regulation on our sector. I'm delighted that Paul MacNamara, a previous IPF Chairman, has agreed to help our focus in this area on a consultancy basis.

Our other three high priorities are:

- Internationalisation of property – in an age of global capital flows for real estate, the IPF wants to support our members in their understanding of international real estate investment markets and provide overseas members with an understanding of the UK investment market.
- Sustainability – particularly important at present with the sustainability agenda expected to centre on policies to reduce carbon emissions, and the built environment presenting significant opportunities to achieve substantial carbon emission reductions.
- Residential property investment – this is an asset class several times larger than the commercial property sector that needs to be properly understood by the investment community.

Engaging with our members

We want to ensure our priorities resonate with your needs and that we are providing you with appropriate opportunities to engage in the Forum's activities. Your feedback is always appreciated and we will be conducting a survey of our members in the autumn, so please do take a moment to respond.

Next year marks the IPF's 25th anniversary. The success of the Forum over such a lengthy period has been down to the commitment and engagement of our members. It's that continued support, particularly the time and energy given by many of our members, that ensures the IPF goes from strength to strength.

I'd like to express my thanks to those of you who volunteer time to participate in our seminars and discussion forums, who provide us with venues and who sit on our committees, special interest groups and the Management Board. You are all busy people, perhaps these days more than ever, and your contribution is much appreciated.

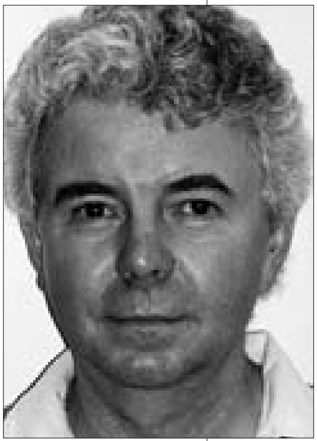
This year we will be focusing even more on engaging our members and ensuring that the excellent work and research produced by the IPF is effectively communicated to the wider business community. If you would like to be more actively involved, we would welcome your contribution.

As an individual members' organisation, we do not take corporate subscriptions. Despite these uncertain times we have increased our membership by 5% this year to the highest ever level of around 2,000 members. A terrific achievement. Many thanks to all of you who have proposed potential members and particularly the members of our Membership Committee and regional boards in the Midlands, the North and Scotland in their sterling efforts.

We think it is important to encourage the younger generation to become actively involved. Last November I launched the IPF Next Generation Group, focused on encouraging those with between 5-15 years' professional experience to become members. In addition to the usual IPF events, we are running dedicated events specifically for the Next Generation Group. I'm delighted to say the Next Generation Group already has around 250 members, and is growing fast.

If you are not currently an IPF member and would like to become involved in the IPF's activities I urge you to join us.

The UK commercial property lending market



Bill Maxted, Department of Corporate Development, De Montfort University

Trudi Porter, Department of Corporate Development, De Montfort University

De Montfort University published its fourteenth research report on lending patterns of the major commercial property lenders operating within the UK in May 2012. The analysis, covering the year up to 31 December 2011, was based on the responses from 72 lending teams operating out of 63 lending organisations. In addition data was received from eight non-traditional lenders who provide mezzanine and junior debt secured by commercial property. Previous years' aggregates have been adjusted to reflect the increase in data received at year-end 2011. A number of organisations from across the categories adopted in this research have completely withdrawn from commercial property lending. However, these organisations continue to report their value of outstanding debt to this research and are included in these numbers.

The rate and detail of response to individual questions varies between organisations due to reasons of confidentiality and availability of data. Thus, 100% response rate may refer to a different total from one question to another.

Throughout this research, 'commercial property lending' is taken to mean all lending secured on UK commercial property and held on the balance sheet of lending organisations. This includes residential investment and development but excludes owner occupier residential mortgages. Where reference is made to the commercial property loan books of lending organisations, this is taken as the net exposure to UK commercial property excluding equity finance (i.e. net of any loan amounts sold down to other lenders and net of any securitised loans unless otherwise stated).

For the purposes of this report, the nationality of lenders is determined by the location of their head office.

Value of outstanding loan books

A total value of £232.7bn of outstanding debt, including loans of approximately £20.2bn secured by social housing (excluding equity) was recorded by the survey as at 31st December 2011. In addition, a further £16.0bn of loans were committed but not drawn at this date. Figure 1 presents the amounts of outstanding senior debt, junior/mezzanine finance and undrawn amounts by category of lender.

The value of outstanding debt secured only by commercial property (this excludes undrawn amounts and loans to social housing) stood at approximately £212.6bn at 31 December 2011. Of this total, £339m was reported by non-traditional lending organisations that specialise in the provision of junior debt/mezzanine finance. Between 2010 and 2011, for the third consecutive year, the value of outstanding debt secured by commercial property recorded by this research, has declined, falling from £228.1bn to £212.3bn, a fall of 6.8% (see Figure 2).

Figure 3 shows the changing proportions of outstanding debt secured by commercial property and held by each category of organisation between 1999 and 2011.

Overall 36.5% of organisations increased the value of their outstanding loan books during 2011. This is higher than 31% that did so in 2010 but lower than 49%, 60% and 76% of organisations who had done so during 2009, 2008 and 2007 respectively. In contrast 60.5% of organisations reduced their value of outstanding debt. Overall, the proportion of lenders increasing the value of their outstanding loan books is influenced by new organisations entering the market, organisations that stopped lending after 2007 but have now re-entered the market, and, those that are new to the research and have been lending moderately but consistently throughout the period of financial turmoil.

The value of outstanding debt continues to be concentrated in the loan books of a relatively small number of large organisations. Since 1999, the largest six organisations, by book size, have held over 50% of the total outstanding debt retained within loan books. Combined together with the six next largest

Figure 1: Category of Lender and type of finance

Categories of Lenders	Reported UK outstanding senior debt loans including social housing £m	Junior debt and mezzanine finance £m	Total £m	Reported amount of committed funds not yet drawn £m
UK Lenders and Building Societies	158,801	1,759	160,560	13,440
German Lenders	24,773	309	25,083	1,146
Other International Lenders	43,351	579	43,930	826
North American Lenders	3,033	111	3,143	600
All Lenders	**229,958**	**2,758**	**232,716**	**16,012**

Figure 2: Aggregated value of outstanding debt

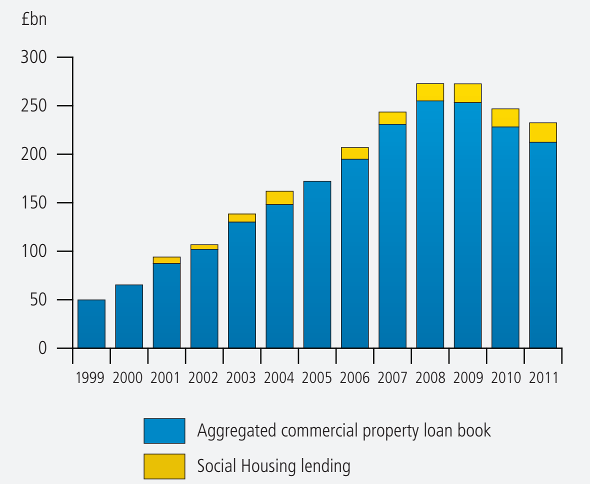
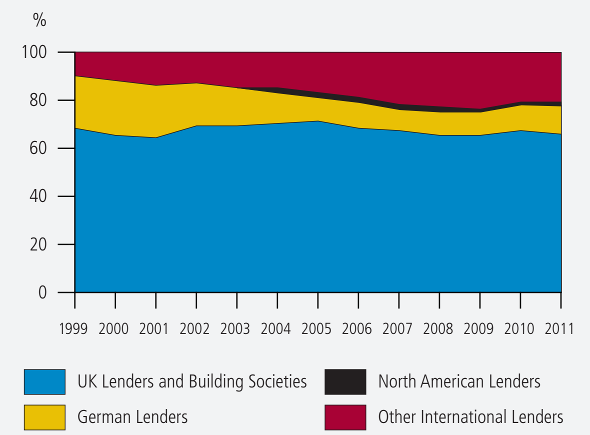


Figure 3: Outstanding debt secured by commercial property by category of Lender



organisations, the largest 12 lenders have, since 2002, held approximately three-quarters of outstanding debt. However, there has been a small and continuous decline in the proportion of debt held by the largest 12 organisations from 82% in 2009 to 78% at year-end 2011.

It is extremely difficult to ascertain the total size of the commercial property lending market in the UK. There are a number of reasons for this. The definition of 'commercial property' is not uniform across the lending industry in the UK, e.g. from 2005 this research has included loans to large-scale residential investment and development projects as 'commercial property' as commercial property lending teams responding to the research explained that they had become involved in lending secured by residential projects because of the large value of the loans involved.

More specifically and as part of the process of widening the scope of this research to make it as comprehensive as possible, at year-end 2011, the following additional amounts of outstanding debt have been identified:

i. Approximately £19.5bn of debt, believed to be mainly secured by commercial property located in the UK but held by organisations that to date, have not participated in this research. This data has been obtained from the published financial statements of the organisations concerned.

ii. An estimated £4.4bn of UK debt had, by year-end 2011, been sold by those lending organisations that have contributed to this research on a regular basis. Whilst recorded at year-end 2011, it will be impossible to 'track' the future management and status of this debt.

iii. Fitch Ratings have provided data on the value of outstanding CMBS issuances that it has rated and that included loans secured by UK commercial property. At year-end 2011, this amounted to £30.3bn. Additionally Fitch Ratings estimates that the total outstanding balance of UK CMBS was approximately £42bn at year-end 2011.

iv. The value of loans held by the National Asset Management Agency (NAMA) that had acquired good (performing) and bad (non-performing) loans secured by all forms of real property from five financial institutions whose head offices are located in Ireland. By year-end 2011, NAMA had acquired loans with a face value of €74.2bn (approximately £62bn). Of this amount, approximately £24bn relates to loans secured by property located in the UK, an amount not reported to the researchers at year-end 2011. However, as by early 2012 NAMA reported that approximately €3bn (£2.5bn) of loan and property assets had been sold in Britain, it is estimated the net total is £21.5bn.

Therefore at year-end 2011, an estimated total value of £299bn of outstanding debt secured by commercial property has been identified by this research.

Loan originations completed in 2011

In view of the changing market conditions and the on-going impact of the financial crisis, since year-end 2009, the research questionnaires have asked for details not only of new lending but also of extensions to loans that should have matured during the reporting period; in this case during 2011. Extensions to maturing loans can be recorded as new lending, refinancing or not lending in the strictest sense. Figure 4 gives amounts indicative of the total value of loans originated and where possible this figure has been stripped of any extensions granted for loans maturing in 2011.

The value of £28.9bn includes £1.4bn of lending secured by Social Housing. In addition £6.8bn of extensions to maturing loans was reported.

Figure 4: Value and allocation of loan originations in 2011

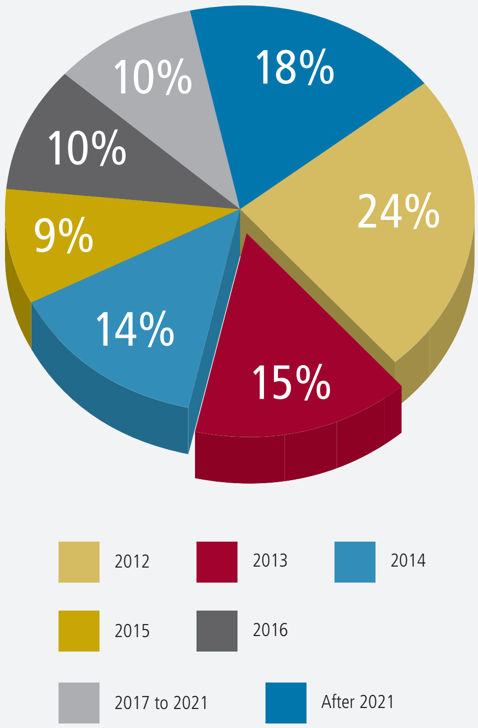
Categories of Lenders	Value of senior debt lending excluding extensions to maturing loans £m	Junior debt and mezzanine originated £m	Value of extensions to loans that should have matured during 2011 £m	Total £m
UK Lenders and Building Societies	14,988	179	2,257	17,424
German Lenders	7,139	–	1,255	8,394
Other international Lenders	6,024	50	3,243	9,317
North American Lenders	730	35	–	765
All Lenders	**28,881**	**264**	**6,755**	**35,900**

UK Lenders and Building Societies recorded 50% of the total loans when identifiable extensions to loans and social housing are excluded.

Debt repayment

Figure 5 shows the proportion of outstanding debt due for repayment in each of the next five years individually from 2012 to 2016, from 2017 to 2021 and finally after 2021.

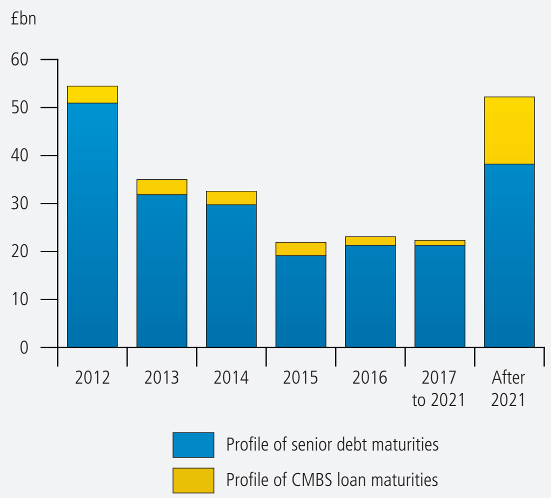
Figure 5: Proportion of debt due for repayment: All Lenders



Between 2012 and 2016 inclusive, approximately 72% of all outstanding debt (£153bn) is due for repayment. This proportion is higher than the 69.5% proportion of debt due to mature within the following five years that was recorded at year-end 2010 but is similar to the 71% that was recorded at year-end 2009. However, it is still significantly higher than the proportions recorded by this research in previous years, for example, at year-ends 2006 and 2007; the comparable proportions were 61% and 60% respectively. The reason for this change in maturity profile is that lending organisations continue to extend performing loans that the borrowers have been unable to refinance at loan maturity.

Figure 6 profiles the amount of senior debt due to mature, together with the maturing loans held in the CMBS market.

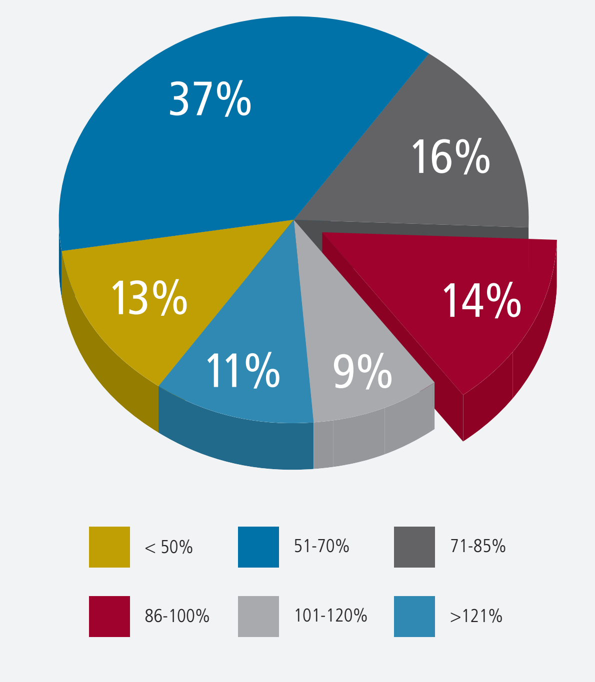
Figure 6: Profile of senior debt and CMBS loan maturities



Source: Fitch Ratings and De Montfort University

Figure 7 presents the approximate proportion of the outstanding debt that had a current loan-to-value (LTV) ratio falling within the ranges given (and ignoring swap breakage costs). Responses were received from organisations holding approximately £190bn of outstanding debt.

Figure 7: Current LTV ratios by proportion of outstanding debt



As demonstrated, 50% of retained debt has a LTV ratio of 70% or less. However, 20% of outstanding debt has a LTV ratio of above 100%, equivalent to £42.5bn of loans out of a total of £212.3bn.

The research asked All Lenders about the allocated by value of the outstanding debt between prime and secondary property. Prime was defined as being 'good property, good location with a good tenant on a good lease'. If the proportions recorded by All Lenders are applied to the total value of outstanding debt of £212.3bn, this suggests that approximately £87bn (41%) of debt is secured by prime property.

Pre-payments

The estimated proportion of loans that were prepaid or refinanced before maturity during 2011 was 2.6% by value. This compares with 4% reported at year-end 2010 and 3% recorded at year-end 2009. Prior to the credit crisis, the proportions recorded were significantly higher. The highest proportion recorded was 60% estimated at year-end 2004, followed by 43% estimated in 2005 and 29% estimated in 2006.

Loan terms

Typical loan lengths

In 2011, 96% of all investment loans were written for a period of up to seven years with five years being the most frequently cited length of loan. This compares with 90% recorded in 2010, 88% in 2009, 84% in 2008 and 77% in 2007. The most frequently cited loan length at year-ends 2007 to 2010 was also five years. With regards to the length of time that it was estimated that an investment loan would actually remain in place, this was recorded at 4.6 years at year-end 2011. This compares with 3.9 years at year-end 2010, 4.3 years at year-end 2009, 4.2 years at year-end 2008, and 4 years at year-end 2007. A number of respondents did comment that it is normally expected that loans written since 2007 will go full term.

In 2007 and 2008, 52% and 48%, respectively, of development loans were written for a period of two years or less. During 2009 this increased to 76% but fell back to 65% at year-end 2010 and fell still further to 53% at year-end 2011. Within the small number of responses to this part of the research, the data and comments suggest that much of the development finance available during 2011 was for new residential development primarily located in the South East. This is similar to comments made at year-end 2010.

The research since year-end 2009 requests information in relation to the typical length of extensions given to maturing loans. For investment loans maturing in 2011, the responses show that the range in length of extended loans was from six months to three years. This compares with a range of six months to 10 years at year-end 2010. The most frequently cited length was one year at year-end 2011.

For maturing development loans, loan extensions were given for up to a period of 18 months at year-end 2011 compared with four years at year-end 2010. The most frequently cited period was six months at year-end 2011 compared to one year in both year-ends 2009 and 2010.

As in previous years, it is commonly cited that together with the cost of funds, the quality and reliability of the borrower were key factors in the decision of how long an extension to give. Lenders commented that at the end of 2011, loan lengths for investment loans of three years were becoming increasingly common. This was due to the increased costs to the lending organisations of borrowing for longer periods than three years and the shortening of occupational tenancies.

Average interest rate margins

Average interest rate margins for loans secured by all commercial property sectors generally increased between 1999 and 2002-03 but declined thereafter until year-end 2006. Increases were recorded during 2007 and onwards. At year-end 2011, interest rate margins were the highest recorded by this research for each property sector. For example, the average margin on loans secured by prime office property increased from 229.8bps at year-end 2010 to 300.1bps by year-end 2011. Similarly for secondary offices, average margins increased from 267.5bps at year-end 2010 to 336.2bps at year-end 2011.

Of the 54 lending teams that answered the question "Did your level of pricing alter during the last two quarters of 2011?", 83% stated they had. When asked if the pricing had increased or decreased, 100% stated it had increased. Of the 50 respondents that answered whether or not they saw their level of pricing altering during the first six months of 2012, 36 (72%) stated they saw it increasing further, 13 (26%) saw it remaining unaltered and 1 (2%) saw it decreasing.

Average LTV ratios

Between year-end 2010 and year-end 2011, the average LTV ratio for all sectors fell to the lowest levels recorded by this research. For example, the average LTV ratio for loans secured by prime offices declined from 67.0% at year-end 2010 to 64.3% at year-end 2011 and that for secondary offices decreased from 62.0% at year-end 2010 to 60.0% at year-end 2011.

Average arrangement fees

In contrast to the decrease recorded at year-end 2010, there was a substantial increase in the average fees at year-end 2011 (with the exception of loans secured by secondary industrial property) to the highest levels recorded by this research. The average arrangement fee for loans secured by prime offices increased from 94.7bps at year-end 2010 to 112.7bps at year-end 2011 and that for secondary offices increased from 106.7bps at year-end 2010 to 120bps at year-end 2011.

The lowest average arrangement fee recorded at year-end 2011 was 112.7bps which was for loans secured by prime office property. The highest, 123.9bps, was that for loans secured by secondary retail property.

Average income to interest cover

During 2011, base rates remained unchanged, swap rates broadly fell throughout the year and property yields recorded a small decline by year-end. Overall, with the exception of loans secured by secondary retail and secondary industrial property, this resulted in income-to-interest cover ratios increasing for loans secured by all the remaining property sectors. For example the average income to interest cover applied to a loan secured by a prime office increased from 1.51 times at year-end 2010 to 1.60 times at year-end 2011 and for a loan secured by a secondary office, from 1.80 times at year-end 2010 to 1.91 times at year-end 2011.

Loans above £100m

The research for year-ends 2010 and 2011 elicited opinion as to whether or not the loan terms given above would vary for loans of a value of £100m or above. At year-end 2010, only eight organisations indicated that this was a market within which they could be active, compared with 21 organisations at year-end 2011. Just over half of these stated that they would alter the terms given above. This included pricing premiums of between 25bps and100 bps, unspecified increased arrangement fees and in one case, a lower LTV ratio.

An additional four organisations responded that they would consider loans of this magnitude if they were part of a syndicate or club. Typically, a 'hold' value would be in the region of £50m to £60m.

Extended and Restructured loans

As in the surveys for the previous two years, the research for 2011 requested information on whether or not the typical loan terms for new lending presented above would be varied for existing loans that were being extended and or restructured.

The common response was that, whilst in theory, the starting point of a negotiation would be based on terms current in the market, the reality of the specific transaction would dictate the terms eventually agreed. The limited ability of some borrowers to inject new equity and so the LTV ratio remaining outside normal lending policy would encourage lenders to require higher pricing and more amortisation if the cash flow would support this structure. This approach could see interest rate margins of 300 bps or more on loan-to-value ratios of up to 60% and any amount of the loan above a senior debt level, priced as mezzanine. These restructurings may include redemption fees of between 100bps to 500bps, especially if interest is only partly paid. However, organisations commented on the importance of being commercially sensible and completing a restructuring that is in the best interests of the lender

Overall, the borrower will achieve more favourable terms if new cash or equity is provided and the security position of the lender improves.

Junior and mezzanine debt on investment loans

While the average LTV ratio has fallen for senior and mezzanine debt between 2010 and 2011, it increased for junior – from 75% to 80%. Interest rate margins increased for all categories, ranging between 250bps to 400bps for senior debt, 1000bps to 1,100bps for junior debt and 500bps to 1,500bps for mezzanine. Required internal rates of return (IRR) ranged from 10% to 13% for junior debt and 15% to 20% for mezzanine finance.

The similarity between the average maximum LTV ratios and interest rate margins for junior debt and mezzanine finance demonstrates the overlapping that has occurred between these two terms and that many providers in the market do not distinguish between these two types of finance provided above a senior level.

Hedging strategy

With regard to new loans written during 2011, 73% of organisations always require an agreed interest rate hedging strategy to be in place. This proportion is a decline from the 85% reported at the end of 2009 and 77% reported at year-end 2010. Of the remainder, 11% only 'sometimes' require a hedging strategy to be in place whilst 16% do not require a strategy to be in place at all. Those organisations that answered 'no' tended to be those that stated they were 'short-term' lenders.

At year-end 2011, respondents identified that 65% of the hedging is fixed and the remaining 35% was by way of another instrument, for example, an interest rate cap.

Loans in breach of financial covenant and defaulted loans

'In breach of financial covenant' is defined in the survey as meaning loans where interest and/or principal repayments have been wholly or partly unpaid and/or the loan-to-value ratio or other covenants have been breached but the loan has not been declared in default. A default is defined as meaning loans where the borrower has breached its loan obligations and the lending organisation has decided to accelerate the loan.

At year-end 2011, of the 57 lending teams that responded, 81% reported that their organisations held loans that were in breach of financial covenant.

Figure 8: Number and value of loans in breach of financial covenant

	No. of loans in breach	Value of loans in breach £m	Value of aggregated loan books %
2005 year-end	689	1,225	Less than 1
2006 year-end	1,928	4,234	2.5
2007 year-end	1,051	1,597	Less than 1
2008 year-end	3,770	10,695	6.5
2009 year-end	3,665	28,305	15.5
2010 year-end	7,733	21,975	12
2011 year-end	8,366	22,821	12

The results show that the value of loans in breach of financial covenant represents approximately 12% (the same proportion as for 2010) of the total aggregated loan book of organisations that contributed data. If this proportion is applied to the total value of reported debt, this suggests that a value of approximately £25bn of lending could be in breach of financial covenant at year-end 2011.

The proportion of responses citing LTV breaches declined from 44% to 40% and the proportion citing interest being wholly or partly unpaid or principal being wholly or partly unpaid, as the primary and sole reason for breaches to occur has fallen significantly (from 35% to 13%). However, those reporting a 'combination' increased from 21% reported at year-end 2010 to 45%.

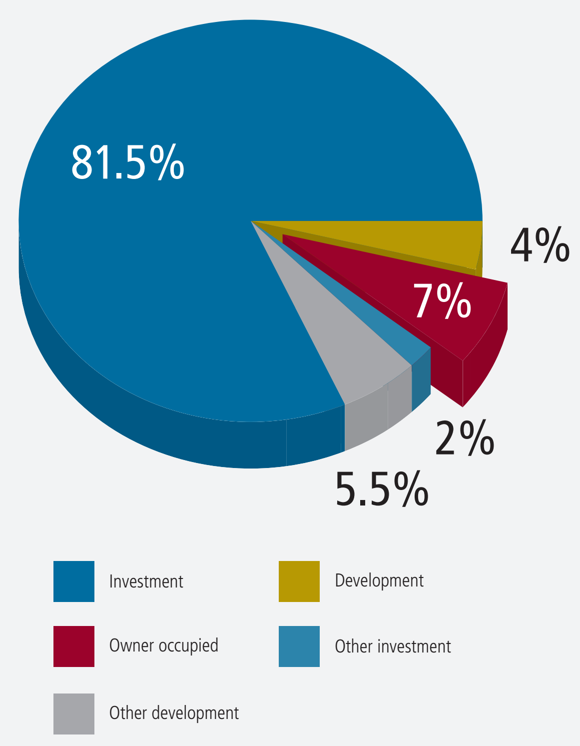
Throughout 2011, evidence was being presented to the research that income streams were weakening due to tenants not renewing leases at expiry or exercising break clauses within their tenancy. Lease renewals were frequently agreed at a reduced rent and/or a rent free period given. Consequently, breaches in income cover and debt service covenants were occurring and the loss in income has contributed to a further decline in capital value.

Structure of outstanding loan books

Type of project

Figure 9 shows the proportion of aggregated loan books by value that is allocated to the different types of commercial property project, namely; investment property, development property, owner occupation and other. During 2011, the proportion allocated to development fell from 13.5% to 11% but the allocation to investment property rose from 78.5% to 81.5%.

Figure 9: Proportion of total value of lending by type of project 2011



The value of outstanding debt secured by residential development projects for sale declined by approximately 25%, from £21.0bn at year-end 2010 to £15.8bn at year-end 2011.

This is the third consecutive year that a fall in the allocation of loan books to residential development has been recorded by this research. Debt secured by commercial development also fell from £11.6bn to £9.5bn at the end of 2011.

Type of property

Comparing the results for 2011 with those of 2010, there have been small changes to specific sectors of loan book allocations. Retail, office and business parks, industrial, and social housing have experienced slight increases in loan book allocations. In contrast, distribution and warehouses, residential and hotels and leisure have experienced decreases. The classification of 'other' has stayed the same at 13%. In particular, student housing, nursing homes and 'owner occupied' were cited by organisations that reported 'other' investment lending.

Regional allocation of lending

Loan book allocations to London, have increased from 26% at year-end 2010 to 29.5% at year-end 2011. Anecdotal evidence suggests that this is a deliberate policy of many organisations who now wish to concentrate their commercial property lending, if possible, in London and the South East.

International lending

The £20.9bn of debt reported as having been originated by UK-based lending teams but secured on properties located outside of the UK is a decline of 11% from the comparable figure of £23.5bn a year ago.

Lending intentions

Figure 10 compares responses as to lending intentions for year-ends 2008 to 2011 in respect of increasing loan originations and increasing loan book sizes. Different lending policies can exist within a single organisation and so this aspect of the research is reported on a 'team' basis.

Figure 10: Future lending intentions of All Lenders

Year-end	Intention to increase loan book size %	Intention to increase loan originations %
2008	24	23
2009	49	56
2010	46	57
2011	38	44

Overall, 44% of lending teams stated an intention to increase loan originations during the next 12 months. This is a reduction from 57% recorded at year-end 2010. Nearly a third intend to reduce their volume of loan originations, whilst 24% intend to maintain their current level of lending activity. 30 lending teams stated an intention to increase their loan originations during the next 12 months and 16 intend to maintain their level of activity – combined these lending teams were responsible for £22.8bn (83%) of all new loan originations reported during 2011.

Conclusions

The year 2011 started with a degree of optimism for the commercial property lending market. During the first two quarters of the year, the first 'true' CMBS issue since 2007 was achieved and lending organisations reported to the research at mid-year that loan originations had been 'sound'. However, these circumstances changed dramatically during the second half of the year. The crisis surrounding the eurozone and the sovereign debt of member states brought extremely tough times to the UK economy and the commercial property lending market in particular.

The value of outstanding debt retained on balance sheet and reported to this research of £212.3bn shows a decline of 6.8% from £228.1bn a year ago. The proportionate reduction in value of outstanding debt of 6.8% may appear small but it has been achieved through significant deleveraging activity by the organisations concerned. The research recorded that reductions of £31.5bn in the value of outstanding debt had been made during 2011 by organisations holding 78% of the reported aggregated debt. Approximately 40% of the recorded reduction was attributed to scheduled amortisations and repayments. Therefore, 60% may be predominantly a consequence of action being taken by lending organisations to remove loans, both impaired and performing, from their loan books. These actions included customers paying down and bank/lending organisation influenced sales. Of particular significance at year-end 2011 was that approximately £4.4bn (par value) of debt was reported as having been sold. This is a large increase from approximately £800m similarly recorded at mid-year 2011 and demonstrates the increase in momentum adopted by organisations to remove legacy debt from their loan books.

Organisations seem to be bringing forward distressed loans for remedial action and, perhaps, have become more inclined to dispose of loans and relationships that are not in line with their future business and lending policy. Throughout 2011, organisations were reporting that more loans had become distressed due to falls in income that the borrowers receive form their commercial property investments. These problems were more typically associated with loans that were already 'on watch' or recorded as in breach of financial covenant. The continued weakness of the UK economy was regarded as a major contributing factor to this situation.

Allied to the value of distressed loans is the current level of LTV ratio across the outstanding loan books of participating organisations. Some 34% of the value of outstanding debt has a LTV ratio of 86% and above, equating to £72.5bn, which cannot be refinanced by loan terms available in the market. In addition, £34bn of outstanding debt has a current LTV ratio of between 71% and 85% and it cannot be assumed that all of this debt is suitable or capable of being refinanced by a combination of senior debt and mezzanine finance.

The liquidity crisis driven by European sovereign debt and the unknown extent of contagion between European banks in the banking system resulted in interest rate margins increasing for most business sectors. Also, and of particular significance to the commercial property lending industry, is the continuing impact of the transition to Basel III, coupled with the pending introduction of additional regulatory capital requirements to be applied specifically to property lending (slotting). This combination of factors has resulted in an unprecedented increase in interest rate margins applied to loans secured by commercial property, as well as encouraging a number of organisations to completely withdraw from the market. This reduction in competition also added further impetus to the increase in margins.

The volume of new loan originations of £27.5bn, whilst an improvement on approximately £18bn and £21bn recorded for 2009 and 2010 respectively, equates to only approximately one-third by value of new lending recorded in 2006 and 2007. Indeed there still remains £51bn of senior debt maturing during 2012 and a total of £153bn by year-end 2016. It appears that much of the new lending during 2011 was directed to deals of large lot sizes, frequently associated with prime property in London and the South East.

Overall, it would appear that there will be little change in the immediate future and despite the highest interest rate margins and lowest LTV ratios recorded by this research, future lending intentions remain weak. Thus the volume of legacy debt will take time to erode. It is important that the UK Base Rate remains low as it has been commented that this is the key to the survival of many of the historic loans.

The loan terms available in the market at year-end 2011 could be regarded as a return to the traditional and stable approach for senior debt lenders. Comments have been made that borrowers are now accepting these terms as the new market reality whilst the lower LTV ratios on offer are providing opportunities for the specialist mezzanine lenders to play their role. More generally, the eurozone debt crisis is regarded as a real threat to asset values in the UK (and globally) and is a problem that has to be solved before national economies and lending markets can start to improve.

The future is in futures

Eurex, the largest derivatives exchange in Europe launched the 'UK IPD All Property Futures' contracts in February 2009, enabling market participants to buy or sell UK All Property IPD Total Returns in standardised annual futures contracts for a fixed price. Fund managers can now buy or sell their own benchmark in a transparent and risk-free counterparty environment.

The next new innovation for this market is the development of a series of futures contracts that pay annual total returns at the IPD segment level (City Offices, West End Offices, Retail Warehouses, Shopping Centres and South East Industrial). These contracts will provide the granularity required by many participants to enable them to actively manage the various risks associated with their property portfolios. This development could facilitate a whole new array of short-term risk management strategies to help fund managers and property owners to navigate their way through what may well be several years of uncertainty.

Risk management strategies

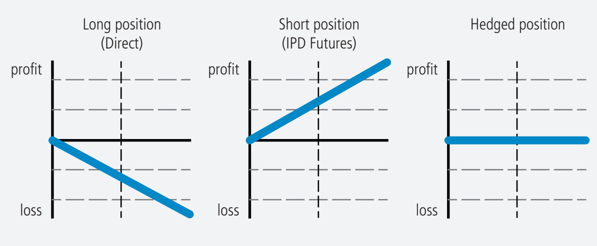
Cash drag and liquidity management

Some fund managers already use the UK All Property Futures contract to place money in the market earning 'property returns' whilst sourcing the market for direct property. Once a suitable direct asset has been found, the futures contract is then sold to free up the capital to purchase the building, thus avoiding cash drag on the fund. When the Eurex IPD Segment Futures launches, this strategy will also be available at segment level. In a similar fashion, some funds hold a small percentage of their fund in IPD futures so that in the event of a redemption call, the fund manager can sell the futures contracts to free up the cash to meet the redemption, rather than selling a direct asset from the fund.

Hedging

Traditionally, property investors wanting to hedge exposure could only sell direct assets or short real estate equities, with neither strategy providing a good hedge due to issues with timing or equity risk. Using Eurex IPD Futures, investors anticipating a fall in future property total returns, can sell Eurex IPD Futures contracts, whilst maintaining ownership of their direct assets. As depicted in Figure 1, if the value of the direct assets falls in value, the value of the IPD Futures contract should gain in value, consequently covering the loss against the direct assets.

Figure 1: Hedging a future fall in direct property total returns using futures

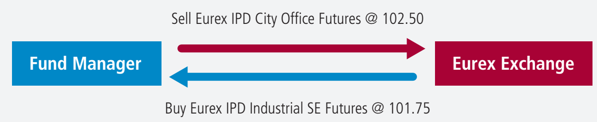


Jon Masters, Head of Property Derivatives, BGC Partners

IPD segment switch

A segment switching strategy enables an investor to remain fully invested in direct property but with reduced exposure to price volatility. The investor is only exposed to the price movement between the two segments and not to the overall market.

Figure 2: Illustration of segment switching



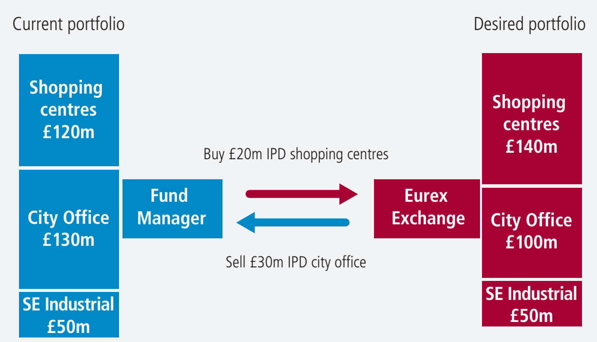
This is set up by selling exposure to one particular segment whilst simultaneously buying exposure, for the same nominal value, to another segment. In the example in Figure 2, the fund manager has sold exposure to the IPD City Offices at 102.50, whilst simultaneously buying exposure to the IPD Industrial South East at 101.75 – with the spread being 75bps (the difference between the buy and sell prices).

Portfolio re-weighting / rebalancing

IPD segment futures also facilitate the tactical re-weighting or rebalancing of a portfolio at segment level to suit various market conditions. To do this in the direct market would have major time and cost implications, making it more difficult to achieve.

In Figure 3, the fund manager has achieved his desired portfolio by buying £20m of IPD Shopping Centre futures and simultaneously selling £30m of IPD City Office futures.

Figure 3: Rebalancing a portfolio using futures



Conclusion

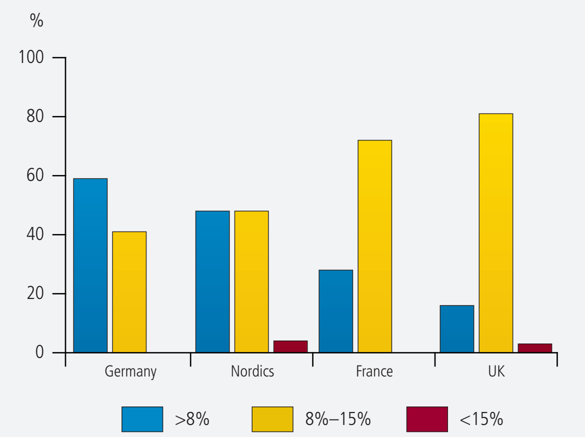
Property markets are cyclical like other markets and if an investor is caught on the wrong side of the cycle invariably they will have to bear the pain until the market corrects. Eurex IPD Property futures offers the potential to achieve more stable property returns and smoother peaks and troughs.

How do safe haven markets compare?

Investors have maintained a risk-averse approach to real estate investing since the onset of the global financial crisis in mid 2007 and the subsequent downturn in real estate markets. During the boom, investor behaviour was marked by an emphasis on absolute returns and inadequate attention to risk. The severity of the financial crisis proved a rude re-awakening to pricing risk. In the aftermath, investor activity has been characterised by a flight to safety in prime, income secure assets in perceived safe haven markets. This strategy has endured for almost five years, reflecting the severity of the financial crisis and the prolonged uncertainty pervading in financial markets.

As well as being constrained by style, investment strategies are narrow in their geographic scope. In 2011, over 80% of real estate transactions occurred in Europe's three major economies and the Nordics. Yet, over the same period they accounted for just over 60% of European trade area GDP. On this basis, allocations to Germany and France are neutral, while the UK and Nordics are up-weighted. Looking forward, investor sentiment is shifting further towards German and Nordic markets. While strong appetite for real estate in the UK and France remains, according to INREV (2012) less than half of investors are planning to increase allocations. Certainly, there has been a marked slowdown in investment volumes in both markets over H2 2012. In contrast, 70% of investors are expecting to up-weight allocations to Germany and further up-weight allocations to Nordic real estate.

Figure 1: Net unleveraged IRR expected by investors



Source: INREV Investor Intentions Survey 2012

Is this shift in investor appetite rational? It is widely considered to reflect the strong pricing of prime real estate in London and Paris that occurred over 2011. Yet, this does not explain up-weightings in Germany and the Nordics where strong pricing relative to the peak has also occurred, or indeed, why investors expect the markets with the strongest allocations to deliver the lowest absolute returns (Figure 1). Differences in the structural components and drivers of economic, investment and market risk between the accepted safe haven markets may better explain investor behaviour. This article compares the risks in accepted safe haven markets across three principal components, namely; economic structure and prospects; real estate investment market; and real estate market fundamentals and prospects.

David Neil, CEO, Genesta

Economic structure and prospects

Since the end of 2010, economic growth forecasts have been subject to a series of downgrades as the sovereign debt crisis revived and intensified. Figure 2 illustrates IMF expected GDP growth over the short (end 2011 to end 2013f) and medium (end 2013f to end 2016f) term as forecast from Autumn 2010 to Spring 2012. Downward revisions are greatest for near-term growth to end 2013. Importantly, the reduction in short-term growth is vanquished over a five-year forecast horizon, not merely deferred.

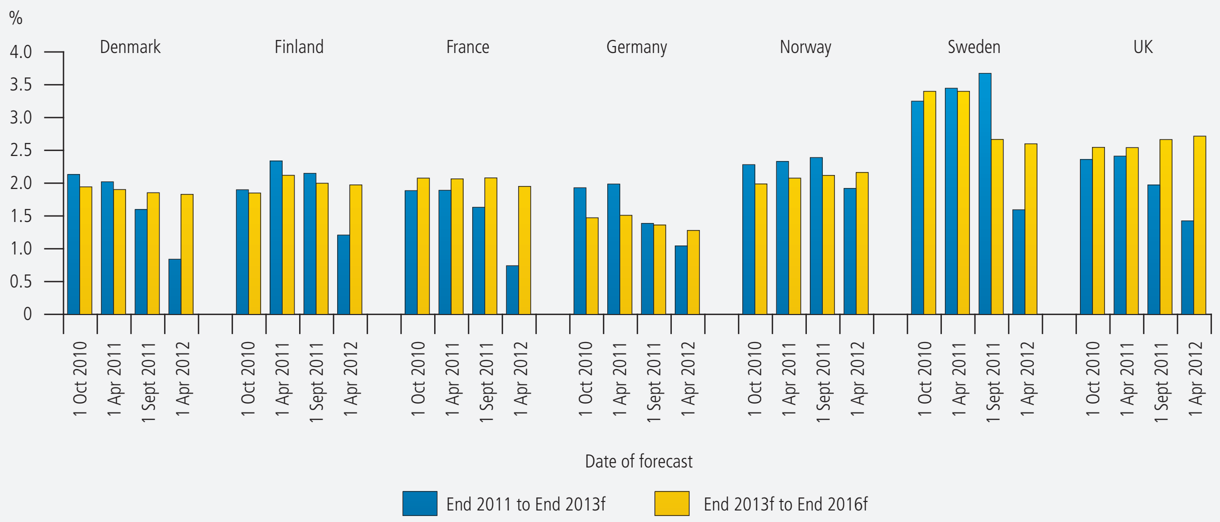
Philip Bjork, Genesta

However, snapshots of growth expectations tell us little about underlying risk and uncertainty. With the financial crisis stemming from a debt bubble, assessing the exposure of markets to debt and their corresponding pressure to deleverage is fundamental. Equally, analysis of the structure of economies and their growth components reveals their exposure, and flexibility to respond, to further financial shocks.

Debt and deleveraging are at the epicentre of the financial crisis. Its aftershocks continue to reverberate as Europe struggles to effectively manage exposure to GIIPS nation debt and the wider deleveraging process. Figure 3 shows debt as a percentage of GDP, broken down by economic sector for each market. The financial sector's debt profile provides an indication of its solvency and stability in the face of a renewed liquidity crisis. Clearly, Denmark and the UK have the highest ratios of debt to GDP.

While the scale of debt indicates the pressure to deleverage, exposure to the risk of GIIPS nation sovereign debt may be of even greater importance. This may be assessed using a three-step filter. First, direct exposure to GIIPS sovereign debt. Second, the exposure of GIIPS banks to sovereign debt. Third, the exposure of safe haven financial institutions to GIIPS banks. According to Asymptometric, at circa €700bn, France has the highest exposure followed by Germany (c. €530bn) and the UK (c. €315bn). The Nordic markets have a very low exposure (c. €35bn), shielding them from the direct impact of 'haircuts' on economic value. However, they are not immune to the impact of any outright default.

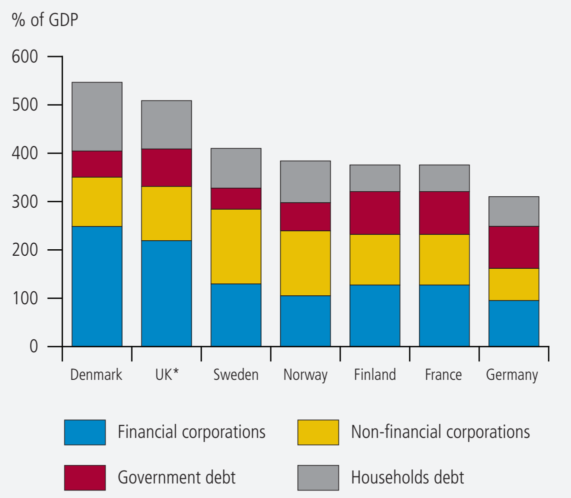
Figure 2: Changes in IMF expectations of GDP growth



Source: IMF 2012

Within markets, the impact of deleveraging is further driven by the range of sectors under pressure. Economies with high government debt ratios are under pressure to deleverage and are implementing austerity measures to reduce debt ratios.

Figure 3: Debt as % of GDP by economic sector 2011



Source: Eurostat, 2012

Note: Includes all loans and fixed income securities.

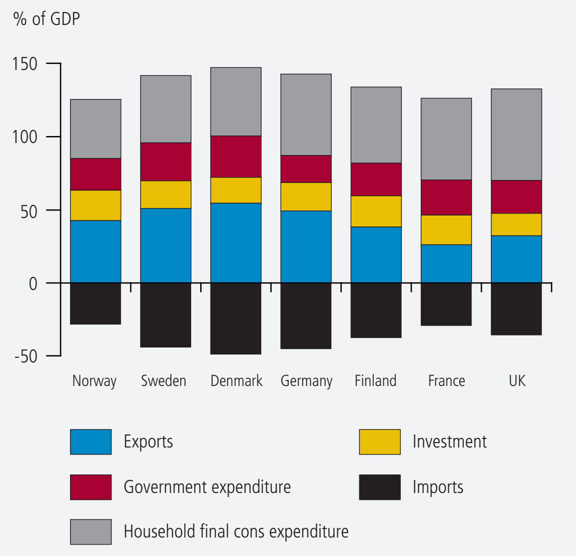
*in corporation debt adjusted for international banks domiciles in UK using McKinsey estimate.

When combined with high ratios of household debt, such austerity measures have the capacity to choke off growth increasing the risk of economic stagnation. A recent study by McKinsey (2012) considers the financial crisis in Sweden and Finland in the early 1990s. It suggests that both economies recovered due to economic policy stimulus, enabled by healthy current account surplus'. Presently, with all sectors under pressure to deleverage in the UK, there is a lack of headroom for expansionary policy, increasing the risk of a 1930s style depression. In contrast, while Sweden's overall debt burden appears high, its fiscal debt is modest, enabling greater policy stimulus, potentially reducing debt burdens through growth.

Structural differences are also evident across the components of economic growth (Figure 4). The Nordics and Germany are the largest trading nations, with both exports and imports accounting for the largest GDP ratios. This provides greater economic diversification in comparison to France and the UK. Moreover, with exports exceeding imports, net trade provides a positive contribution to economic output and delivers a current account surplus. Finland is the notable exception, with deteriorating economic conditions turning the current account balance negative until returning to positive territory in 2014. In comparison, the UK and France are forecast to remain in negative territory throughout the forecast horizon to 2016.

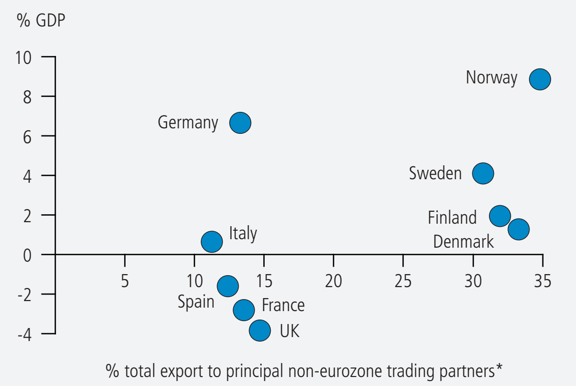
The most recent crisis has been confined largely to Europe. Coupled with better than expected output results for the US economy, there is evidence of some de-coupling of the performance of global economic regions. Markets that are export-led and have strengthening export partners in extra eurozone countries may benefit from stronger rates of growth (Figure 5).

Figure 4: Components of GDP end 2011



Source: IMF, 2012

Figure 5: Net export goods by country



* Principal trading partners defined as the respective country's largest six non-eurozone markets by value of exports

Source: Genesta Real Estate; IMF, (2012); Economywatch.com, 2012

Real estate investment market risks

Prior to the financial crisis real estate investment market risks were considered across a number of simple metrics, namely; Market size, transparency and liquidity. However, the legacy of the financial crisis has demonstrated the complexity of the globalisation of financial markets and its associated risks. While reference to market size as a basis for the neutral portfolio remains important, a legacy of the downturn has been a reassessment of investment market risk. A debt-fuelled real estate bubble of some €1tn was at the heart of the global financial crisis and the process of deleveraging the sector brings additional risk. Those considered most fundamental are liquidity, the scale of excess real estate debt, and exposure to the risk of market de-stabilisation.

In the wake of the financial crisis and the downturn in real estate, a debt funding gap emerged affecting circa 45% of real estate loans. Initially, this reflected the equity gap created as real estate values declined breaching loan-to-value thresholds. The debt funding gap has grown for out of the money assets given minimal capital expenditure since 2007, deteriorating values further. Despite this, banks adopted a managed workout approach – that is, until now.

The need to bolster solvency in the short term amid heightened market uncertainty and in the medium term to meet the requirements of Basel III, has rapidly increased the pressure to restructure bank balance sheets. With assets risk-weighted, reducing real estate exposure has a disproportionately favourable effect on capital ratios. Consequently, over 50 lenders have reduced, suspended and withdrawn from real estate lending. Like investors, lenders prefer low risk assets in low risk markets. As a result, refinancing is a growing issue for the vintage of high-risk debt maturing over the next four years. Underlying assets are usually subject to the sharpest value declines and the highest slotting/Basel III risk weightings. In other words, their removal will disproportionately aid balance-sheet repair. This escalates the risk of a market flood of asset disposals by banks, or by those purchasing loan books. Of course, the risk of market de-stabilisation is not evenly spread across Europe. Within safe haven markets, the greatest exposure is in the UK, both by absolute volume and relative to stock. Exposure in Germany is more limited in scope, being concentrated in large high street and residential portfolios. Excepting Denmark, the Nordics and France have very low exposure absolutely or relatively, suggesting a low risk of market de-stabilisation.

Real estate market fundamentals and prospects

In the aftermath of the financial crisis, real estate markets entered a synchronised downturn, regardless of underlying fundamentals. This reflected heightened uncertainty given financial market opacity and fear of contagion. By end 2010, greater diversification in market cycles emerged with peripheral markets continuing to contract as core and northern European markets began to recover slowly. Demand-side drivers continue to reflect differences in economic structure and performance, but risk aversion remains pervasive. Development finance remains scarce and costly across all markets, impairing supply response. This has the effect of extending and de-risking the cycle for the strongest markets.

In part, prospects reflect where markets were when the music stopped in 2007. Following the downturn, occupier demand evaporated as business confidence plummeted and all European markets experienced rental decline. Unsurprisingly, the decline was deepest in those markets which previously experienced the strongest prime rental growth and in which the supply side response was already well underway. Importantly, such supply was less driven by underlying drivers of occupier demand and increasingly driven by strong investor demand, fuelled by the debt bubble. Other markets had only begun to shift from recovery to growth, with limited supply side response, including Munich, Stockholm, Helsinki and Paris.

The virtual elimination of speculative development across many markets has helped to erode vacancy. In Stockholm, Oslo and the London office markets vacancy rates have fallen beneath their long-term average. Within Stockholm's prime CBD, vacancy rates have fallen below 3%. Net additions to stock across markets remain low and predominantly non speculative, providing a cap for vacancy rates and lowering downside volatility into at least the medium term. Demand is expected to outpace supply across these selected safe haven markets, with the exception of over-supplied Frankfurt and La Defense. This is despite very modest GDP growth and expectations of increasing unemployment in the short term, notably the UK.

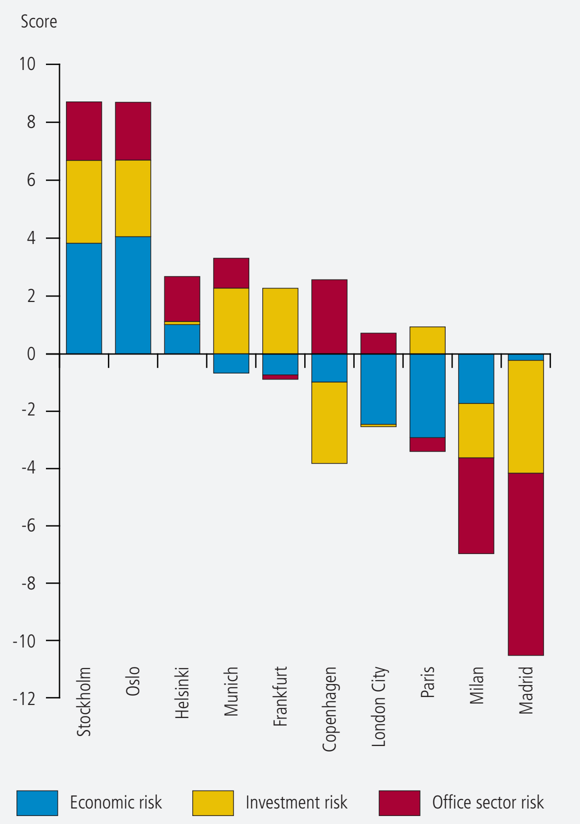
Nevertheless, rental growth expectations remain modest over short and medium-term horizons. IPF's European consensus forecasts indicate that on a five-year annualised basis London's West End, Oslo, Stockholm, Paris CBD, London City and Munich have the strongest rental growth expectations owing to low availability, a more diversified occupier base and more constrained supply. However, such forecasts are below long-term trends. With the exception of Oslo, expectations have deteriorated over H1 2012 and uncertainty underlying them has widened. Occupiers remain cautious and in the most under-supplied markets growth is now spreading to good quality sub-markets while prime rents have stabilised.

Historically, London West End, Stockholm, Oslo and Paris CBD have been the most volatile rental markets. On a risk-adjusted basis, rental growth per unit of such volatility is weaker than that in Copenhagen, Helsinki and Munich. However, given that the availability of development finance is expected to weaken further over the forecast horizon, downside volatility will be curtailed. Thus risk-adjusted rents based on historic rental volatility are likely to overestimate downside risk.

Is investor behaviour rational?

In terms of country allocations, yes it is. Using standard scores, a risk averse prospects index is developed (Figure 6). Using selected metrics, this measures the relative performance of perceived safe haven markets and peripheral economies across the three risk dimensions discussed. Economic risk metrics encompass growth expectations, debt exposure and economic diversification. Investment risks consider liquidity, real estate debt and risk of market de-stabilisation. Real estate risks include

Figure 6: Risk Averse Prospects Index



Source: Genesta Real Estate, 2012

supply metrics, demand drivers and, near and medium term growth expectations. Clearly, perceived German and Nordic safe-haven markets are the most sheltered ports. Stockholm and Oslo are the strongest performers on the risk averse prospects index, while Helsinki and Munich also perform well.

Differences in underlying risk profiles of perceived safe haven markets suggest a less uniform selection of style across markets for risk optimisation.

The cost of improving energy efficiency in existing buildings

Richard Quartermaine, Associate Director, Sweett Group

In recent years, brand new, highly-efficient office buildings have tended to grab the headlines when it comes to improving energy performance in commercial properties. Opportunities to reduce energy consumption in existing buildings, which account for over 98% of the total commercial stock, have been under publicised for a range of reasons. The most notable reasons include; the lack of available cost data, appropriateness of certain technologies and their respective energy savings, perceived level of disruption to occupiers and the 'who pays, who gains' scenario between landlords and tenants.

In January 2009, the IPF published research to specifically address this issue for the property investment community. The report, Costing Energy Efficiency Improvements in Existing Commercial Buildings, identified the key improvements that should be made to existing commercial buildings and the building types that presented the greatest opportunities to reduce carbon dioxide (CO_2) emissions. Since its publication, the research has been used to support strategic decision-making by the property investment community by advising on those buildings in a portfolio which can yield the largest CO_2 savings for the least cost. The research has been of particular interest to investment fund managers, asset managers, property managers and letting agents.

Since then, regulations, incentives and Government initiatives have changed and are driving a much greater interest in improving the energy performance of existing buildings. Key drivers include:

- Revised Building Regulations 2010 (and a proposed future change in 2013-14) which will mean that existing buildings will all demonstrate a lower F and G Energy Performance Certificate (EPC) rating when re-assessed.
- Introduction and subsequent changes made to the Feed-In Tariff incentive scheme for solar photovoltaic panels and wind turbines plus a new incentive for the production of renewable heat known as the Renewable Heat Incentive.
- Proposed simplification of the CRC Energy Efficiency scheme.
- Imminent implementation of the 'Green Deal' innovative funding mechanism where owners and occupiers of buildings can take out finance to fund energy efficiency improvements with the repayment obligation being attached to the electricity meter rather than the party applying for the finance.
- Government plans to introduce a minimum energy performance standard preventing landlords letting out commercial properties with F and G EPC ratings from 2018 at the latest.

Based on the success of the original work and the rapid development of the sustainability agenda affecting commercial property, the IPF commissioned an update of the work in early 2012. Sweett Group (formerly Cyril Sweett) was asked to refresh the extensive analysis previously undertaken to identify the business case for making a range of energy efficiency improvements.

The aim and objectives of the update are consistent with the original research to provide the same value to users as before. However, attention to certain additional objectives was necessary to respond to the changed environmental agenda affecting existing commercial buildings. Two additional focus areas of the work were:

1. Identify the cost and improvement measures required to achieve higher EPC ratings from the baseline position for the building types analysed.

2. Determine what EPC/CO_2 reduction targets should be set now to prevent a building being either F or G rated in 2018.

The update is not a complete refresh of the original study because certain key changes have occurred based on previous findings. The number of office types analysed have been reduced to produce more consolidated results compared with the original study. In addition, the retail and industrial/warehouse buildings have been increased in size to better reflect the existing stock and therefore produce more useful data.

Summary results

Figure 1: Improvement in EPC rating from refurbishment

	Office 1 pre 1940s	Office 2 pre 1995	Office 3 post 2002	Office 4 post 2006	Retail pre 1995	Industrial / warehouse pre 1995
EPC Rating						
Baseline	E	G	F	E	D	F
Standard refurbishment	D	F	F	E	C	B
Additional cumulative capital cost extra over market standard refurbishment (%)						
E		0.3	1.0			
D		1.7	1.9	1.0		
C	0.8	14.6	12.6	12.8		
B	14.1	37.3	44.7	45.7	2.6	
A	40.0	–	–	–	–	20.7

A key objective of the update study was to identify the cost of improving the EPC rating for each building. This required:

- The modelling of the building's baseline EPC rating;
- An assessment of how a 'market standard' refurbishment (i.e. no extra expenditure on energy efficiency beyond meeting regulatory compliance) would inherently improve the EPC rating; and

- Establishing the additional cost and benefit of specifying a series of enhanced energy efficiency improvements.

Summary results for all buildings are presented in Figure 1. The headline results show that a 'market standard' refurbishment can improve the EPC rating by at least one grade for most buildings, with the exception being offices built post 2002. The industrial/warehouse building shows a substantial improvement because the rating improves from an F to a B when refurbished to a market standard.

Improving the EPC rating further is relatively inexpensive for the office and retail buildings. The EPC rating for all offices can be improved by an extra grade for an additional cost of less than 1% of the refurbishment budget which is potentially viable for most projects. Likewise, to do the same for the retail building will require an additional capital sum of 2.6% above the standard refurbishment cost and therefore attractive in terms of future-proofing the asset.

The results also show that the most cost effective buildings to improve are air conditioned offices built over 10 years ago (Offices 2 and 3) because EPC ratings can be improved from an F to a D for a total extra spend of circa 2%.

Furthermore, in terms of the impact of regulatory change on EPC ratings, it is likely that the EPC rating for the office built after 2006 (Office 4) would drop to an F following the next revision to Part L based on a comparison between the 2006 and 2010 versions of the regulations. This is particularly important because it would mean that even modern offices built to recent standards would be captured by proposed minimum energy efficiency legislation from 2018 (or earlier if introduced sooner).

Energy efficiency 'quick wins'

A comprehensive range of energy efficiency improvements were once again examined from the perspective of cost, energy and carbon saved, impact on EPC, marginal cost and available incentives such as the Feed-In Tariff and Renewable Heat Incentive. Detailed data is provided in the report (see example in Figure 2 overleaf) to enable readers to financially evaluate the individual improvements for each property type. The data presented allows an IRR together with other metrics to be estimated. The impact of varying the price of energy and CO_2 can also be estimated.

The colour coding used in the table shows the energy efficiency improvements which need to be implemented to improve the EPC rating. For example, incorporating daylight controls and variable speed pumps (highlighted in orange) into a refurbishment will improve the EPC rating from an F to an E. Likewise the improvements highlighted in yellow will improve the rating still further to a D.

The update demonstrated that there are common energy efficiency 'quick wins' across a range of commercial building types that are low cost to implement and can improve EPC ratings by either one or two grades. These quick wins are:

- Boilers (95% efficiency)
- Daylight controls
- Improving air tightness
- Variable speed heating and cooling pumps
- Heating controls
- Power factor correction (>0.95)
- High efficiency chillers
- T5 lighting
- Heat recovery
- DC drive fan coil units

These quick wins can either form part of a general refurbishment during a period of vacant possession or as 'one-off' improvements when the building is wholly or partly occupied. Replacing lighting and fan coil units pose particular challenges especially for retail buildings but can still be implemented 'out of hours' over an extended period of time.

There is still a business case for taking action to improve energy performance in existing commercial buildings as demonstrated in the update work. Although there is often a split incentive to invest between landlords and tenants, knowing the cost and savings from implementing a range of improvement options is a critical first step in response to tightening Government legislation and increasing demand for low energy commercial buildings.

Figure 2: The impact of individual improvements

Upgrade Category	Energy Efficiency Improvement	EPC Score/ Rating	Carbon Saving p.a. ($kgCO_2/m^2$)	Extra Capital Cost (£/m²)	Marginal Cost (£ per $kgCO_2/m^2$ p.a.)	DECC 'central' average net saving p.a. (£/m²)	DECC 'high' average net saving p.a. (£/m²)	CRC EES saving p.a. @ £12/tCO_2 (£/m²)	Feed-In Tariff/ renewable heat incentive revenue p.a. (£/m²)	Improve-ment lifetime (years)	Limitations / discussions / assumptions
–	BASELINE	164 / G	–	–	–	–	–	–	–	–	
–	MARKET STANDARD REFURBISHMENT	138 / F	13.6	–	–	–	–	–	–	–	
Lighting	Daylight Sensing	125 / E	6.8	2.25	0.33	1.95	2.05	0.08	–	10	Controls lighting when sufficient daylight enters a space.
Heating/ cooling	Heating and cooling – Variable speed pumps	135 / F	1.6	0.71	0.44	0.49	0.58	0.02	–	20	More efficient than fixed speed pumps.
Power	0.95 Power Factor Correction	136 / F	0.8	0.40	0.49	0.25	0.30	0.01	–	20	Reduces transmission losses from electrical circuits.
Cooling	Chiller COP 5.4	125 / E	6.7	4.74	0.71	2.06	2.43	0.08	–	20	High Coefficient of Performance so less electricity consumed.
Lighting	T5 Lighting	127 / F	5.4	7.11	1.32	1.74	2.03	0.06	–	20	Wide variance in quality and cost of T5 light fittings. Assumed like-for-like replacement in terms of light quality.
Fabric	Upgrades to air tightness	134 / F	1.7	2.50	1.47	0.36	0.47	0.02	–	20	Reduces heat loss in winter and heat infiltration in summer.
Heating	95% Efficiency Boilers	137 / F	0.5	0.90	1.79	0.10	0.13	0.01	–	20	Boiler with 90% efficiency part of a market refurbishment.
Heating	Heat recovery	130 / F	3.7	7.30	1.97	0.88	1.12	0.04	–	20	Reuses waste heat.
Cooling	DC drive fan coils	129 / F	4.7	10.03	2.16	1.42	1.68	0.06	–	20	Direct current drives allow fan speed to be varied to conserve energy.
Heating	Heating Controls	137 / F	0.5	1.32	2.71	0.09	0.13	0.01	–	20	Local temperature and time controls.
Cooling	SFP 2.0W/l/s	135 / F	1.5	9.69	6.46	0.48	0.56	0.02	–	20	SFP measures energy consumed to move one litre of air per second.
Lighting	Movement Sensing (PIR)	136 / F	0.9	6.04	6.72	0.26	0.27	0.01	–	10	Turns off lighting when there are no occupants in a space.
LZC	Photovoltaics – 10kWp (75m²)	136 / F	0.8	8.95	11.19	0.42	0.43	–	0.21	25	Produces electricity. Uncertainty surrounding future FiT.
Fabric	External shading	127 / F	5.4	98.15	18.18	2.07	2.11	0.06	–	30	Reduces heat gain in summer.
Lighting	LED Lighting	124 / E	6.9	49.78	7.21	2.03	2.35	0.08	–	15	Developing technology which will become more competitive over time.
Cooling	Chilled beams – passive	100 / D	19.7	183.55	9.32	6.55	7.66	0.24	–	20	Requires less electricity to provide cooling.
LZC	Photovoltaics – 100kWp (750m²)	122 / E	8.3	81.65	9.84	3.76	3.91	–	1.60	25	Produces electricity. Uncertainty surrounding future FiT.
LZC	Photovoltaics – 50kWp (375m²)	130 / F	4.2	42.80	10.19	2.01	2.09	–	0.94	25	Produces electricity. Uncertainty surrounding future FiT.
LZC	Air source heat pump	130 / F	4.3	59.67	13.88	-0.33	0.08	–	–	20	Provides heating and cooling.
Cooling	Chilled beams – active	116 / E	11.0	160.79	14.62	3.75	4.36	0.13	–	20	Requires less electricity to provide cooling.
LZC	Wind turbine 20kW	136 / F	1.0	16.88	16.88	0.73	0.67	–	0.41	20	Very site specific. Typically suits out of town locations.
LZC	Solar thermal 50m²	137 / F	0.3	8.56	28.53	0.16	0.17	–	0.13	25	Produces hot water.

additional improvements required to give an E rated EPC
additional improvements required to give a D rated EPC
additional improvements required to give a C rated EPC
improvements not included in the EPC strategy

2012: Reasons to be cheerful or tearful?

Report on the IPF conference in Scotland

Conference speakers: Richard Donnell, Amanda Howard, David Skinner, John Swinney, Joe Valente, Paul Findlay, Bill Dinning

The ninth annual **IPF Property Investment Conference in Scotland** took place in Aegon's Edinburgh Park office on 14 June. The event, sponsored by **Dundas & Wilson**, **Kames Capital** and **Miller Developments**, saw an impressive line-up of speakers consider the attractiveness of property in Scotland, and the UK as a whole, from a global perspective and against a changing regulatory environment.

The event was chaired by **Paul Findlay**, Investment Director at SWIP and IPF Chairman in Scotland. Opening the conference, he said that the economic recovery seemed to be further off than had been hoped at last year's event. Given our current circumstances, it was more important than ever to engage with government to ensure that the regulatory environment in which we will be operating does not stifle the recovery in the market.

John Swinney, Cabinet Secretary for Finance, Employment and Sustainable Growth, Scottish Parliament said that when it was set up in 2007, his administration's overriding priority was sustainable economic growth in Scotland. At that time, all the indictors were positive but as everyone knows, this changed in 2008. In response, the Government decided that the public sector should provide support to the economy until the private sector recovered – predicted to be by 2011. Although this timescale has proved optimistic, he thought that there were positive signs of private sector growth in Scotland, including falling unemployment totals, positive manufacturing data for 2011 and the growth in the volume of retail sales, which has been at a faster rate than in the rest of the UK.

While the eurozone crisis is partially to blame for the lack of recovery in the UK economy, Mr Swinney thinks that growth would be achievable through additional public expenditure on capital projects, including the Forth replacement crossing, duelling of main roads and improving the digital infrastructure. In addition, it was incumbent on the Government to ensure that the planning system was fit for purpose in order to encourage construction and business to take place in Scotland. Both pre and post the referendum, the Government is determined that Scotland will be an attractive, competitive place to do business.

Incoming national IPF Chairman and Head of Nabarro's Funds and Indirect Real Estate Team, **Amanda Howard**, reported that despite the unsettled times, the membership of the IPF had risen by 5% over the last year to a record 2,000 members. She thanked Phil Clark, the outgoing Chairman, for his leadership in crystallising the IPF's new Vision, which will focus the IPF's resources on five key areas: finance and funding, regulations and legislation, the internationalisation of property, sustainability and the residential sector.

Picking up the financing and funding theme, her firm had undertaken a survey in December 2011 of fund managers and investors launched looking at the key trends and challenges in the indirect funds' sector. This survey had identified three principal trends for 2012:

- Greater interest in joint ventures and clubs, rather than more passive investment through funds;
- A more risk-adverse approach, with over 70% of respondents focussing on core funds; and
- An increase in merger activity amongst fund managers, driven by scale and efficiency, together with increased costs as a result of regulatory changes.

The survey also highlighted three challenges for the coming year:

- Raising equity – getting funds closed will continue to be a huge challenge and cornerstone investors will expect considerable concessions including reduced management fees, places on the fund's advisory board and approval rights over material decisions.
- Finding stock – a problem for everyone.
- The management of existing debt – this was perceived to be more of a challenge by investors than the fund managers themselves, who were more focused on the challenge of raising new debt.

Joe Valente, Head of Research and Strategy for J.P. Morgan's European Real Estate Group said that when the market is down, "there are always 1001 reasons for doing nothing". He, however, was more interested in, "one or two reasons for doing something". "Deciding to do nothing and then coming back into the market when things are better is not a particularly productive strategy as it means that you are going to get very old and miss the opportunities".

In his view, Europe lacks direction; "three years of austerity hasn't worked so people are now saying we need growth but you cannot suddenly go from one to the other". The best case scenario at present is for prolonged, 'painful', incredibly anaemic growth and it was quite plausible to think that things could get worse in 2013. If this is the case, then property is currently overpriced.

The market is inherently volatile and investors should be seeing this point in the market as an opportunity to buy into a good market, good building with a decent covenant. He favours looking at the fundamentals of local markets rather than countries, e.g. not Spain but Madrid. He also suggests looking at what has happened to capital values: where values have recovered in France, Poland and the UK, there are other countries, such as Ireland, where they have not. These markets are starting to look interesting, even if values may not yet have hit bottom.

Looking at the level of debt in the European property markets (the LTV ratio overall is currently 58%, compared with 67% in the US), deleveraging still has a lot further to go and the lack of debt finance means that "prices will have to give". Opportunistic investors should be able to buy at significant discounts to current value.

So how does property look compared with other asset classes? Bill Dinning, Head of Investment Strategy & Economics at Kames Capital thinks that, in absolute terms, property yields at circa 6% are "pretty good". However, there are some distortions in the market, especially with interest rates being so low, such that, "although property yields are higher than those for equities (3-4%), risk-adjusted equities are currently discounting more so are more attractive than property". Equities are also "remarkably cheap" relative to bonds.

The market is taking the view that things will get worse in Europe but he does not believe that Greece will leave the euro, since this is a political instrument designed to further European union. The resolution will require Greek debt to be written off "properly", the issuance of eurobonds, followed by the ECB cutting interest rates to encourage growth.

With regards to the UK, "it is easy to get too hung up about how bad things are here". The UK can borrow for 10 years at higher negative real interest rates than any other country in the world, the Government will inflate the deficit away and sterling is benefitting from everyone wanting to come to the UK, particularly London. In summary, "the UK is not in great shape, but compared with other places, it is not so bad". In terms of asset allocation, he thinks that equities and property will be worth allocating to in the future.

John Swinney addresses the conference

Speakers' slides are available to download from the Events Archive on the IPF website.

Amanda Howard, incoming national IPF Chairman

In addition to the economic pressures on the property market, regulation and legislation is having a growing impact and, as **David Skinner**, Chief Investment Officer at Aviva Investors outlined, there is more to come. He focused on the effect of four key areas: Solvency II; European Market Infrastructure Regulation (EMIR); changes to lease accounting; and Basel III.

Solvency II is a fundamental review of the capital adequacy of the European insurance market. The impact on the property market is poorly understood but in effect insurance companies will have to hold real estate assets of £125 for every £100 of liability – making investment in property unattractive and therefore possibly reducing insurer's exposure to the asset class. The effect on the market will differ by segment, e.g. insurers do not own many unit shops so this segment is less likely to be affected than retail warehouses, where insurance companies are significant investors.

Consultations on applying Solvency II principles to the pension fund sector have already begun.

EMIR, which is likely to come into effect at the end of the year, is intended to minimise the systemic risks in connection with over-the-counter (OTC) derivatives trading. The impact of this is likely to increase costs (people and systems) in order to clear centrally and lower investment returns due to the need to hold more cash/near cash assets to meet initial margin calls. Another could be to reduce risk management as a result of the reduction in OTC transactions.

The proposed lease accounting changes, which remove the distinction between finance and operating leases, are likely to deter tenants from taking longer leases as they will need to recognise the balance of the liability remaining under their lease on their balance sheets. The consequences for property market include, possibly a greater propensity to owner occupy, fewer sale and leasebacks, fewer longer leases, and more break options and greater volatility in investment performance.

Lastly, Basel III aims to strengthen banks' tier 1 capital base, achievable through raising long-term capital, raising deposits and/or reducing their property loan books. This will mean that it will be ever more difficult to find debt finance for secondary property.

In summary, "The balloon of regulation has worthy aspirations but I am concerned about the ability of the property industry to absorb it all, especially in the short term".

To conclude the conference, **Richard Donnell**, Director of Research at Hometrack, looked at the opportunities for institutional investors in the residential sector. He highlighted the long-term fundamentals of the sector in terms of its size, the imbalance of supply and demand, the relationship between rents and values with earnings over the long term and the portfolio diversification benefits.

The market (comprising 26m homes) segments into some 8m units that are owned outright, 5m where there is less than 50% gearing, 4m where there is more than 50% gearing, a private rented sector of £3.7m (80% of which is owned by individuals), 4.7m is social housing and there is a very small amount of shared ownership. In his view, the opportunities for investors lie within the market rented sector, social housing (where there is no debt finance available so alternative sources will be required) and, in the longer term, equity release from the 8m houses owned outright.

However, there are short-term challenges, not least the weak economic outlook/growth in disposable incomes, funding and regulation challenges for mortgage lenders and limited prospects for real house price inflation.


Joe Valente answers questions posed by the audience

UK Consensus Forecasts
May 2012

The IPF UK Consensus Forecast of the All Property total return for the year has weakened slightly since the Q1 survey, from 1.6% to 1.4%. This has been driven by a sustained expectation of negative capital value growth (steady at -4.6% quarter-on-quarter) and a fall in implied income return to 6.0%. The market continues to be affected by the uncertainty wrought by the ongoing eurocrisis, reinforced by confirmation of GDP dipping below zero growth for the second quarter in succession. 2013 is expected to see capital value growth stabilising (-0.3% average forecast), followed by improvement in the later years of the forecast to close to the long-run average rate of 2.5% per annum.

Key points

Rental Growth under pressure as Capital Growth outlook holds at -4.6%. The All Property rental value growth forecasts for all periods have weakened further in the second quarter of the year. At the sector level, only Standard Retail and Shopping Centre forecasts have not fallen further, suggesting some resilience in this area of the economy. This is at odds with further anticipated reductions in capital value growth for these sectors in 2012, although the expectation for All Property is unchanged at -4.6%.

2012 All Property total return weakens slightly

The outlook at the All Property level is for a poor 2012, with an average forecast of 1.4%. The most marked reductions lie within the Industrial and Shopping Centre segments (the latter being the only negative sector total return forecast: -0.5% as against 0.3% in Q1), whilst the mean Office return leads at 3.1% for the year, bolstered by expectations of relatively strong performance in the central London markets (5.0% and 3.7% for West End and City respectively).

Industrials in the ascendancy?

The forecasts for sector average total returns currently predict Industrial investments to deliver the best annual performance in all but the first year of the survey.

Property advisors more optimistic in the short term

All forecasters view 2012 to be the bottom of the current cycle but it appears that Fund managers are marginally less pessimistic in their outlook across all measures this quarter, although still more negative overall than Property advisors.

Broad consensus for 2012

The current year's average projections are not dissimilar between contributors at either end of the period of data collection (i.e. March and May), although the April forecasts are moderately more optimistic. However, more recent forecasts suggest a growing confidence for both rental and capital value growth in the later years of the survey (in 2015 and 2016).

Economic background

The second estimate[1] by the Office for National Statistics (ONS) reports a decrease of 0.3% in GDP for the first quarter of 2012, confirming the UK's entry into double dip recession, following a 0.3% decline in Q4 2011. Output of the production industries decreased by 0.4% (against a decrease of 1.3% in the previous quarter) whilst construction sector output fell to a revised 4.8% (down from 0.2% in Q4). An increase of 0.1% in output of the service industries (-0.1% in Q4) was insufficient to return GDP to positive territory. Second quarter growth is expected to be affected by the extra public holiday for Diamond Jubilee celebrations, whilst the Olympics may further distort the situation over the summer. HM Treasury's latest comparison of independent forecasts of GDP growth[2] reports an average for new forecasts of 0.4% for 2012 (0.5% at Q1), compared to the Office for Budget Responsibility's (OBR) March projection of 0.8%. However, the OBR chairman was recently quoted as saying that the deepening crisis in the eurozone could force him to tear up this forecast[3]. In 2013, HM Treasury's average GDP growth forecast indicates a rise to 1.7% for the year.

As anticipated in the last report, the inflation outlook is mildly encouraging, with the ONS reporting Consumer Price Index (CPI) annual inflation of 3.0% in April 2012[4], down from 3.5% in March. The timing of Easter had an impact on the April data with the most significant drivers behind the decrease being air transport, off-sales of alcohol, clothing and sea transport. Upward pressure was exerted by the 'operation of personal transport equipment'[5], restaurants & hotels (retail, food and beverage) and rents. Retail Price Index (RPI) annual inflation was 3.5% (3.6% in March), reflecting falling prices for alcoholic drinks, clothing, fares & other travel and the purchase of motor vehicles partially offset by increased housing costs and petrol & oil price rises. HM Treasury's average of new forecasts predict a CPI inflation rate of 2.4% in 2012 and 2.1% in 2013. The respective RPI forecasts are 2.7% and 2.9%.

Other ONS data released recently[6] include the value of retail sales, which slowed with volumes falling in April 2012. All retailing sales values increased by 0.4% last month compared with April 2011 but decreased by 2.8% as against March 2012. One of the major sources of downward pressure to year-on-year growth in sales values came from the food sector, where sales values increased by only 0.1% – the smallest ever year-on-year growth in sales values for this sector since the series started in January 1989. All retailing sales volumes decreased in April 2012 by 1.1% compared with a year ago and by 2.3% compared with March 2012, primarily due to a fall in automotive fuel sales, where volumes reduced by 13.2%, the largest drop in this series since its start in February 1996.

1 ONS 24 May 2012

2 HM Treasury Forecasts for the UK economy: 16 May 2012

3 Guardian 19.05.12

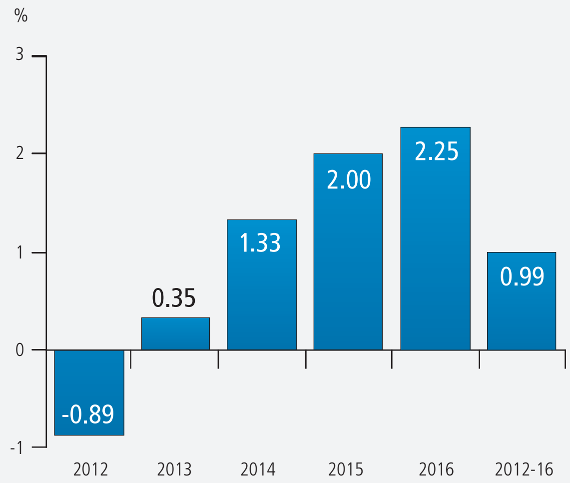
5 Selected spare parts and accessories – eg wiper blade, battery, tyres; satellite navigation system; fuels & lubricants; maintenance & repair

6 ONS 23 May 2012

Turning to the labour market, the latest ONS figures[7] show a slightly improving situation with UK unemployment falling by 45,000 (to 2.63m) in the first quarter of 2012, representing a reduction in the overall jobless rate to 8.2% (from 8.4%). The employment rate for those aged from 16 to 64 was 70.5%, up 0.2% on the quarter, representing 29.23m people in employment aged 16 and over, up 105,000 on the quarter. The ONS reports the quarterly increase in employment to have been entirely due to more part-time workers. The claimant count – the number of people claiming Jobseeker's Allowance – fell by 13,700 to 1.59m in April. The inactivity rate for those aged from 16 to 64 is down 0.1% to 23.0% on the quarter, representing 9.25m economically inactive people within this age range. Total wages (including bonuses) rose by 0.6% on a year earlier. This represents the lowest growth rate since March-May 2009 and it is down 0.5 on the three months to February 2012. Regular pay (excluding bonuses) rose by 1.6% on a year earlier, unchanged on the three months to February 2012.

The situation in the eurozone continues to be a major risk to all forecasts and, whilst the OBR has attempted to estimate the likely impact of a disorderly sovereign debt restructuring on the UK, even its chairman admits that projections for the UK, based on a withdrawal by Greece from the euro, such as a resultant two year recession and unemployment reaching close to 11% by 2013-14, are of limited worth as it is impossible to predict the direction the crisis may take.

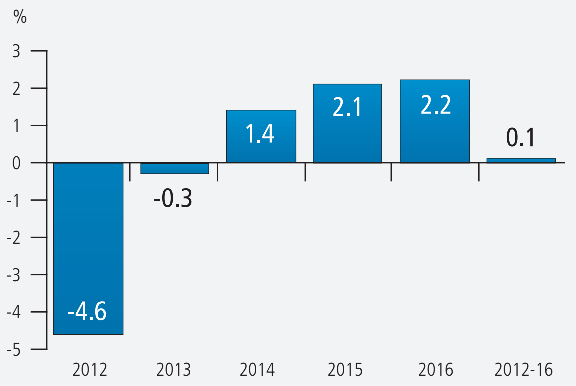
Figure 1: All Property rental value growth forecasts



Forecasts over all time periods have fallen in this latest survey, although the pattern of slow improvement over the five years replicates the Q1 outlook. The average prediction for the current year has weakened by a further 0.9%.

The consequent impact on the five-year average is to reduce this from the 1.09% forecast in Q1 to the current 0.99%. Clearly, contributors consider the occupational market to be extremely fragile and this is reflected in the projection lying more than 2% below the long-run average rental growth rate of 3.1% per annum.

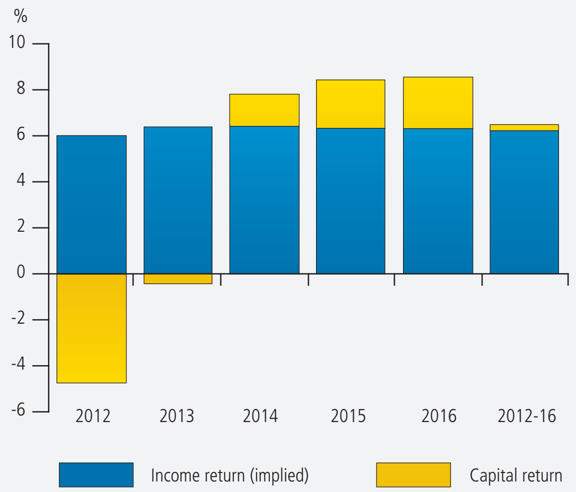
Figure 2: All Property capital value growth forecasts



The depth of anticipated negative capital growth remains constant in 2012, with a recovery in 2013 but growth is still expected to be below zero. Contributors are slightly more optimistic in the later years of the forecast with an anticipated return to positive growth in 2014 and for the remainder of the period of the forecasts.

However, the impact of a near-term drop in values on the five-year average suggests a virtually flat outlook in nominal terms over the entirety of the forecast, although the later years of the forecast imply growth may return close to the long-run average of 2.5% year-on-year.

Figure 3: All Property total return forecasts



The All Property total return average forecast for 2012 has fallen again since the last report (down from 1.6%), driven by a 0.2% drop in the implied income return (to 6.0%). The 2013 prediction has also weakened (down from 6.4%) due to the expected continuation of negative capital value growth.

The projections for the later years of the forecast suggest a modest recovery but the predominant element of total returns continue to be derived from income. Notably, the poor economic environment is reflected in slightly weakened rental income return projections in the near-term, although there is the expectation of a modest recovery in 2013.

7 ONS 16 May 2012

All Property survey results by contributor type

(Forecasts in brackets are February 2012 comparisons)

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

	Rental value growth %						Capital value growth %						Total return %					
	2012		2013		2012-16		2012		2013		2012-16		2012		2013		2012-16	
Maximum	0.3	(1.2)	1.8	(2.4)	1.7	(2.1)	-2.1	(0.1)	2.0	(3.4)	1.8	(1.8)	3.6	(6.0)	8.5	(10.0)	7.4	(7.8)
Minimum	-2.2	(-2.2)	-1.2	(-1.3)	-0.1	(-0.2)	-7.2	(-8.0)	-2.9	(-2.2)	-0.6	(-0.7)	-1.5	(-2.2)	3.3	(4.2)	5.6	(5.8)
Range	2.5	(3.4)	3.1	(3.7)	1.9	(2.3)	5.1	(8.1)	4.8	(5.6)	2.4	(2.5)	5.1	(8.2)	5.2	(5.8)	1.8	(2.0)
Median	-0.7	(-0.6)	0.6	(1.1)	1.3	(1.8)	-3.9	(-3.5)	0.0	(0.6)	0.2	(0.5)	2.0	(2.8)	6.3	(6.9)	6.5	(6.8)
Mean	**-0.7**	**(-0.4)**	**0.4**	**(1.0)**	**1.2**	**(1.5)**	**-4.2**	**(-3.2)**	**0.1**	**(0.4)**	**0.3**	**(0.6)**	**1.7**	**(2.8)**	**6.2**	**(6.8)**	**6.5**	**(6.9)**

Figure 5: Fund managers (14 contributors)

	Rental value growth %						Capital value growth %						Total return %					
	2012		2013		2012-16		2012		2013		2012-16		2012		2013		2012-16	
Maximum	0.3	(0.9)	2.3	(2.0)	2.2	(2.1)	-1.8	(-0.1)	1.4	(7.0)	1.6	(1.7)	4.4	(5.8)	7.8	(13.5)	7.7	(7.7)
Minimum	-3.0	(-2.7)	-1.3	(-1.6)	-1.2	(-0.7)	-7.9	(-9.7)	-2.9	(-4.7)	-1.0	(-2.8)	-2.0	(-3.9)	3.3	(1.5)	5.2	(3.4)
Range	3.3	(3.6)	3.6	(3.6)	3.4	(2.8)	6.1	(9.6)	4.3	(11.7)	2.6	(4.5)	6.4	(9.8)	4.5	(12.0)	2.5	(4.3)
Median	-0.9	(-1.3)	0.3	(0.5)	1.0	((0.8)	-5.1	(-6.0)	-1.0	(-1.6)	-0.2	(-0.6)	0.7	(0.1)	5.7	(5.0)	6.2	(6.0)
Mean	**-1.0**	**(-1.1)**	**0.3**	**(0.3)**	**0.8**	**0.7**	**-5.0**	**(-5.7)**	**-0.8**	**(-0.5)**	**-0.1**	**(-0.6)**	**1.0**	**(0.5)**	**5.7**	**(6.0)**	**6.2**	**(5.9)**

Figure 6: All forecasters (26 contributors)

	Rental value growth %						Capital value growth %						Total return %					
	2012		2013		2012-16		2012		2013		2012-16		2012		2013		2012-16	
Maximum	0.3	(1.2)	2.3	(2.4)	2.2	(2.1)	-1.8	(0.1)	2.0	(7.0)	1.8	(1.8)	4.4	(6.0)	8.5	(13.5)	7.7	(7.8)
Minimum	-3.0	(-2.7)	-1.3	(-1.6)	-1.2	(-0.7)	-7.9	(-9.7)	-2.9	(-4.7)	-1.0	(-2.8)	-2.0	(-3.9)	3.3	(1.5)	5.2	(3.4)
Range	3.3	(3.9)	3.6	(4.0)	3.4	(2.8)	6.1	(9.8)	4.9	(11.7)	2.8	(4.6)	6.4	(9.9)	5.2	(12.0)	2.5	(4.4)
Std. Dev.	0.9	(1.1)	0.9	(1.1)	0.7	(0.83)	1.8	(2.9)	1.3	(2.5)	0.8	(1.1)	1.8	(2.9)	1.4	(2.5)	0.6	(0.9)
Median	-0.9	(-1.0)	0.4	(0.6)	1.2	(1.1)	-4.0	(-4.3)	-0.1	(0.1)	0.0	(-0.2)	1.9	(1.7)	6.1	(6.5)	6.3	(6.3)
Mean	**-0.9**	**(-0.8)**	**0.4**	**(0.6)**	**1.0**	**(2.1)**	**-4.6**	**-4.6**	**-0.3**	**(-0.1)**	**0.1**	**(0.0)**	**1.4**	**(1.6)**	**6.0**	**(6.4)**	**6.4**	**(6.4)**

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 must be 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 forecaster' level only. **9.** TThere was one equity broker contribution this quarter, whose data is incorporated at the 'All forecaster' level only. **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 28 contributors, while the sector forecasts are for the reduced samples (22/26) of contributors.

Acknowledgements

The Investment Property Forum would like to thank all those organisations who contributed to the IPF UK Consensus Forecasts for Q2 2012, including the following:

Property advisors (including research consultancies): Capital Economics, CB Richard Ellis, Cluttons, Colliers International, Drivers Jonas Deloitte, DTZ, Fletcher King, GVA, Jones Lang LaSalle, Knight Frank, 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, PRUPIM, RREEF, 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.

European Consensus Forecasts
May 2012

The ongoing uncertainty within the eurozone provides the backdrop to the thirteenth IPF Consensus Forecast of Prime European Office Rents.

Key Points

- The first survey of 2012 shows a general weakening in forecast growth across the majority of locations, with 16 of the 28 centres expected to deliver negative rental value growth in the current year.
- Oslo has maintained its position as the leading market this calendar year, with an increased growth forecast, rising to a weighted average of 6.7% from last year's predicted 4.0% in 2012, although this is substantially below the 14.7% growth seen in 2011.
- The only other centre anticipated to show more than a very modest rate of growth is Helsinki (at 3.1%). Prospects for the two, previously strongly performing, London markets have continued to decline.
- Rents within the eurozone economies with significant sovereign debt issues, the so-called PIIGS nations (of Portugal, Ireland, Italy, Greece and Spain), remain under pressure, with all anticipated to suffer negative growth in 2012. Short-term sentiment for Barcelona has weakened considerably (-6.2% for the year versus -0.6% last November). Again, there were insufficient returns for the Athens market to permit any analysis.
- The prospect for 2013 is for a continued downward drift in growth rates with 15 of the forecast centres expected to weaken, although 23 of the 28 markets are still expected to deliver positive growth.
- Looking at the three-year averages, Oslo is again expected to be the foremost performer (at 3.8%), closely followed by London's West End (3.7%), whilst this latter market may deliver the best average over five years (3.1% per annum). With the exception of Lisbon, all markets reported are expected to produce positive growth on average over a five-year period.
- Expectations for the PIIGS economies are for meagre growth over three and five years, these averages being influenced by poor short-term prospects in many instances. However, the majority of these forecasts were prepared prior to the eurozone crisis deepening further, with an increased risk of a Greek withdrawal from the euro, and are therefore unlikely to reflect the significant impact of the dangers to these economies.

Projections for 2012 and 2013 weaken across the majority of markets

Figure 1 provides a summary of the consensus forecasts for |office rents by city.

A comparison between the November 2011 and May 2012 projections for rental growth in 2012 show that these are at least 1% more negative in 22 average forecasts (as against six between May and November 2011). Conversely, the outlook for only two markets has strengthened by 1% or more in the last six months (compared to 14 at the time of the preceding survey), these being Oslo and Luxembourg.

The Oslo market remains volatile for reasons mentioned in the last report, including its recovery from a substantial market correction combined with a strong economy. However, the expectation is for more restrained growth than in 2011.

Reasonable growth in the current year is otherwise limited to Helsinki, whilst previously reported short-term increases in Warsaw, Stockholm and Lyon have fallen away.

In the UK, expectations for the London office markets have continued to fall for the current year, although growth rates may increase later in the forecast period.

Segregating the data into groups, the overall downward trend in rental growth rates in 2012 is clearly evident (see Figure 2), with the expectations for the PIIGS locations all negative. The range in growth rates between centres has almost doubled since the last survey (from 6.8% to 12.9%), which reflects increasing uncertainty among forecasters – an apparent weakening in confidence since last November's situation.

Looking at the prospects for non-euro members, with the exception of Oslo, all of these centres are on a similar downward trajectory.

2012, as shown in Figure 3, is broadly one characterised by further weakening in most markets (rental growth being projected to fall further next year in 15 of 28 locations). Against this trend, Oslo is currently predicted to grow an average 3.1% in 2013 as against 1.8% predicted in November. Whilst more modest rates of negative growth are anticipated in the majority of instances (-1.4% being the worst), locations that continue to show the greatest negative growth are all situated within the PIIGS economies. A notable exception is the 2013 average forecast for Dublin, at 2.8% substantially up on the 2012 projection of -3.9%, perhaps reflecting the impact of austerity measures implemented by the Irish government in earlier years.

Interestingly, too, the array of growth forecasts narrows to 5.9% for next year, as a result of more optimistic expectations across a number of markets, although the upper end of the range has reduced (London City being projected to deliver 4.6% growth, down from 6.4% forecast six months ago).

Figure 1: European office market prime rent forecasts, May 2012

	Year rental growth forecast % pa 2011	2012	2013	3-year forecast 2012-14 % pa	5-year forecast 2012-16 % pa
Vienna	-0.1	0.7	2.2	0.9	1.6
Brussels	-1.6	0.3	1.7	0.1	0.8
Prague	-0.4	1.2	2.3	1.0	1.5
Copenhagen	-0.3	1.2	2.1	1.0	1.4
Helsinki	3.1	1.0	2.5	2.2	1.7
Lyon	0.3	0.9	1.8	1.0	1.3
Paris CBD	-4.3	1.4	2.8	-0.1	2.2
Paris la Defense	-2.2	1.3	2.2	0.4	1.4
Berlin	1.7	1.8	2.0	1.8	1.3
Frankfurt	0.8	2.5	1.6	1.6	1.7
Hamburg	0.9	1.8	1.8	1.5	1.2
Munich	1.8	1.9	2.5	2.1	1.8
Athens	n/a	n/a	n/a	n/a	n/a
Budapest	-1.3	0.1	2.4	0.4	0.7
Dublin	-3.9	2.8	3.1	0.6	1.4
Milan	-1.8	-0.4	0.6	-0.5	0.7
Rome	-1.8	-1.4	0.3	-1.0	0.5
Luxembourg	1.1	1.5	1.6	1.4	1.5
Amsterdam	-0.5	0.3	1.5	0.4	1.0
Oslo	6.7	3.1	1.7	3.8	2.2
Warsaw	1.8	1.3	2.2	1.8	1.7
Lisbon	-4.3	-0.9	1.3	-1.3	-0.3
Moscow	na	na	na	na	na
Madrid	-0.9	-0.7	3.5	0.6	1.8
Barcelona	-6.2	-0.3	2.5	-1.4	1.2
Stockholm	0.5	2.6	3.1	2.1	2.3
Zurich	-0.2	1.0	3.0	1.3	na
London: City	0.1	4.6	3.9	2.9	2.1
London: West End	1.7	4.1	4.9	3.5	3.1
Manchester	-0.1	1.7	2.3	1.3	1.7

Upturn in 2014?

The outlook in 2014 is for positive growth in all office markets, although rates in three centres (London City, Oslo and Frankfurt) are expected to fall back from their 2013 projections. However, any recovery is likely to be fragile with the average improvement across all locations expected currently to be no better than a meagre 1%.

Three and five-year averages soften

The longer-term outlooks across the rolling three- and five-year timeframes fall within relatively tight spreads (5.2% and 3.3% respectively) although the five-year average across all centres may prove to be marginally stronger (1.5% versus 1.1% for three years). The three-year forecasts continue to reflect the weakness of the Portuguese and Italian markets, joined by Barcelona, expected to be the weakest perfomer. Madrid and Dublin may deliver weakly positive growth on average over the period as their markets are expected to improve in 2013 and 2014. London West End and Oslo are the only centres predicted to grow by over 3% per annum over the three years, although expectations for both London markets have declined further since the November survey.

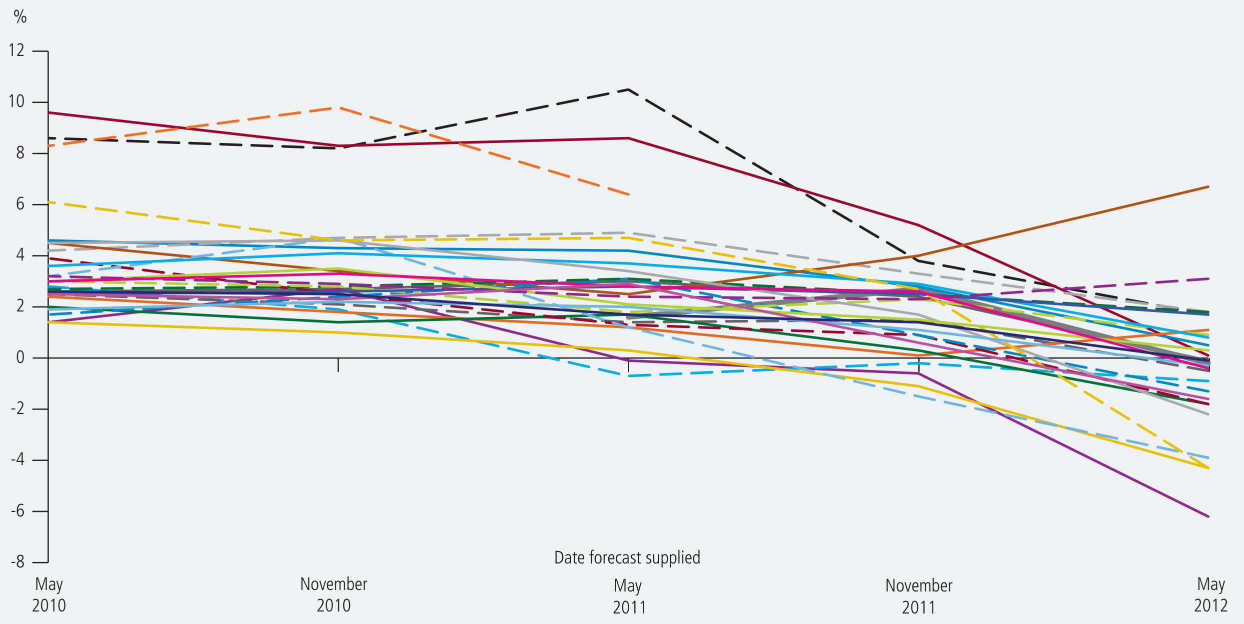
Encouragingly, the five-year outlook indicates all centres, other than Lisbon, may deliver, on average, positive growth over this period. Aside from Lisbon (at an average of -0.3%), only Rome, Milan, Budapest and Brussels are projected to grow at less than 1% per annum. The top five centres over this longer period are all expected to produce lower growth than forecast last November. They comprise London West End, at 3.1% per annum (down from 5.3%), followed by Stockholm, 2.3% (3.7%), Paris CBD, 2.2% (2.7%), Oslo, 2.2% (4.0%), and London City, 2.1% (3.5%).

Conclusions

Many of the contributions to this consensus forecast pre-date the latest developments in the eurozone crisis, following the French presidential election and indecisive Greek elections held in early May. There is now a very real prospect of Greece exiting the euro within the next 12 months, as well as the fear of contagion to other much larger PIIGS countries such as Spain and Italy. Those outside the euro are not immune to these influences with, for example, the eurozone accounting for around 40% of UK exports. Despite its current 'safe haven' status, some forecasters are signalling that central London office values could fall by as much as 15%, even under a 'muddle through' scenario[1]. In these circumstances, and given the weak economic outlook, rental growth will be hard to achieve across the continent and the next survey may provide some interesting results by comparison with present forecasts.

1 J.P. Morgan Cazenove Europe Equity Research 18 May 2012

Figure 2: Forecasts for year 2012



Key for Figures 2 and 3

Vienna	Helsinki	Frankfurt	Dublin	Warsaw	Stockholm
Brussels	Paris CBD	Munich	Milan	Lisbon	London City
Prague	Paris la Defense	Zurich	Rome	Madrid	London West End
Copenhagen	Berlin	Budapest	Amsterdam	Barcelona	Manchester
Luxembourg	Oslo	Moscow	Athens	Lyon	Hamburg

Figure 3: Forecasts for year 2013

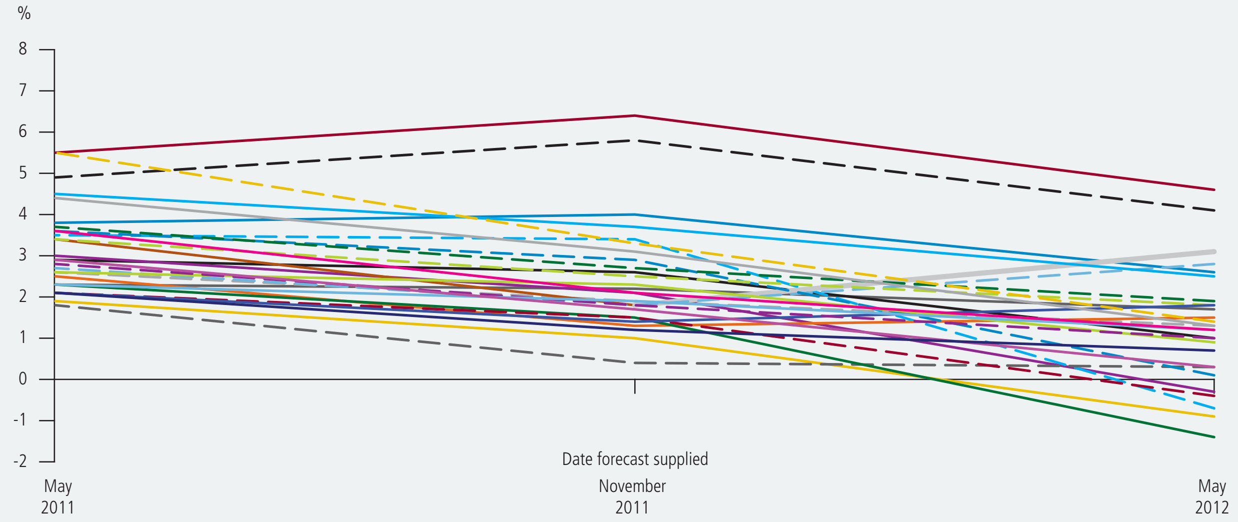
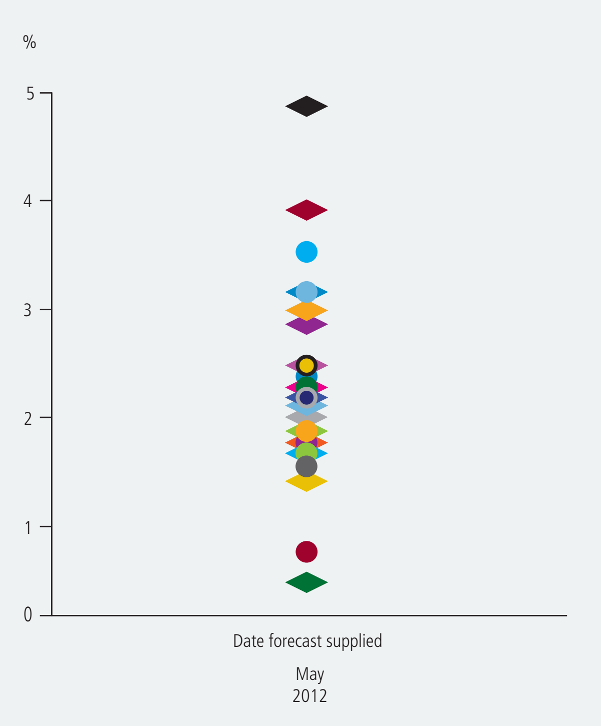


Figure 4: Forecasts for year 2014



Key for Figure 4

Vienna, Brussels, Prague, Copenhagen, Dublin, Milan, Rome, Amsterdam, Zurich, Oslo, Helsinki, Paris CBD, Paris la Defense, Berlin, Warsaw, Lisbon, Madrid, Barcelona, Luxembourg, Lyon, Frankfurt, Munich, Budapest, Stockholm, London City, London West End, Manchester, Hamburg

Forecast Contributors: IPF would like to thank all participants in the survey for contributing rental data to the May 2012 European Consensus Forecasts, including the following organisations:

Aberdeen Asset Management, Aviva Investors, AXA Real Estate, CBRE Global Investors, Cushman & Wakefield, DTZ, Grosvenor, Invesco, Jones Lang LaSalle, Paul Mitchell Real Estate Consultancy Limited, PPR, SWIP, Standard Life Investments.

Notes

At present the IPF European Consensus Forecasts survey focuses on office rental value growth in major cities. It is not possible at this stage to assemble sufficient forecasts of all sectors across all European countries to produce a meaningful consensus of views, although this remains one of our ambitions to extend and improve the scope of the survey.

In addition to the rental value forecasts, we run a consensus survey of forecast IPD European total returns by sector. The samples provided for this survey were once again small and not sufficient to permit publication. We hope to be able to produce a full release of this data at some time in the future, once the number of responses has grown sufficiently.

The Data

This latest survey collected prime office rental forecasts for 30 centres for the calendar years 2012, 2013 and 2014. We request a three-year average forecast for 2012-2014 if individual years are not available, and a five-year average for 2012-2016. The survey requested both the percentage annual rental growth rates and also year-end rent levels. The growth forecasts provided by each organisation have been analysed to provide weighted average ('consensus') figures for each market. Figures are only reported for cities where a minimum of five contributions are received.

The definition of market rent used in the survey is "achievable prime rental values for city centre offices, based on buildings of representative size with representative lease terms for modern structures in the best location." Prime in this case does not mean headline rents taken from individual buildings, but rather rental levels based on market evidence, which can be replicated. All figures included in the survey are required to have been generated by formal forecasting models. This report is based on contributions from 14 different organisations (fund management houses and property advisors).

Consensus forecasts further the objective of the Investment Property Forum to enhance the understanding and efficiency of the property market. The IPF is extremely grateful for the support those organisations that contribute to this publication, which is only possible thanks to the provision of individual forecasts.

The IPF welcomes new contributors for future surveys, so that the coverage of the market can be widened. If your organisation wishes to contribute to future surveys please contact Pam Craddock, IPF Research Director at pcraddock@ipf.org.uk.

Please note that subscribers receive a much more detailed set of statistical outputs than those shown in the table above – for each office centre the sample size, median and range of rental values are also provided.

Disclaimer

The IPF Survey of Independent Forecasts for European Prime Office Rents 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.

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Who's Who at the IPF

Phil Clark, Investment Director, Kames Capital

What brought you into the property industry?
I was attracted by its great diversity of career options and it typically offered a good mix of people interaction and travel, rather than just being desk-bound.

How has the property industry changed for you since you joined?
Hugely – the industry is now truly global, and respected by asset allocators as being more sophisticated than its image suggested some 30 years ago, something the IPF has been deliberately instrumental in achieving in the UK at least.

How do you feel about the future of the industry?
It faces some significant challenges for many investors in Europe – a lack of investor confidence in eurozone sovereign debt; lack of lending against property; increased regulation; illiquidity in the face of growing demand for liquidity; and sluggish GDP growth, all of which will drag property returns in many European markets at least. In Asia, I believe the industry will experience significant opportunity and growth. Even in Europe though, current issues will eventually subside and the key attribute of property as a real asset offering a combination of bond and equity-like returns which will return it to favour amongst investors.

If you weren't doing the job you are, what would you be doing instead?
Anything to do with tennis!

What was the first record you ever bought?
Showing my age: probably Elton John's Good-Bye Yellow Brick Road, which also sparked my long-suffering support for Watford FC!

What book is on your bedside table?
'The Age Of Our Disconnect' – a brilliant book lent to me by Susan Lloyd-Hurwitz (LaSalle), on how blinded we've become with IT. It challenges the notion that IT always makes our lives easier or more effective.

How do you spend your free time?
With family; watching tennis (preferably live when time permits); or going to one of the many cultural activities in Cambridge (theatre, concerts, restaurants, lectures).

What's on your iPod?
A big range from Classical to 70s ('when I were a lad'), and Current Music to Podcasts of Desert Island Discs!

What keeps you awake at night?
Not a lot!

Phil is a member of the Management Board, immediate past Chairman of the IPF and a member of the Academic Group and the Solvency II Working Group.

Peter Pereira Gray, Managing Director, Investment Division, The Wellcome Trust

What brought you into the property industry?
A desire to get out a bit.

How has the property industry changed for you since you joined?
I seem to remember that there was something called a 25-year lease with a 5-year upward only rent review way back then!

How do you feel about the future of the industry?
It will survive, ...but probably smaller, and more perfectly formed... (less leverage!)

If you weren't doing the job you are, what would you be doing instead?
Surfing.

What was the first record you ever bought?
Crocodile Rock by Elton John.

What book is on your bedside table?
'Wealth, War and Wisdom' by Barton Biggs. Brilliant!

How do you spend your free time?
Travelling between London, Devon and Cornwall.

What's on your iPod?
'Pure Joy'...by Emily Gray (my daughter).

What keeps you awake at night?
Caffeine.

Peter is a member of the Management Board, a past Chairman of the IPF and a member of the Residential Investment Group.

Andrew Hynard, UK Deputy Chairman, Jones Lang LaSalle

What brought you into the property industry?
All very dull I'm afraid – my father and brother were surveyors, and I liked the look of days out of the office, sensible hours and a good standard of living.

How has the property industry changed for you since you joined?
It is far more sophisticated and specialist these days. When I started at what was then JLW one was simply an investment surveyor, covering all sectors and geographies and advising both in and out-house clients. Now we are often operating in sub-sectors (e.g. high street retail investment, out of London), and have great depth of expertise in those. Technology has come on so far – from telex to email/scanned documents and the rare occurrence of any correspondence by post-delivered letter.

How do you feel about the future of the industry?
Pretty positive. Real estate is a crucial asset class, and will always form part of an investor's portfolio. As such, there will always be the need for market advice and other services for investors and occupiers. However, low transactional volumes and severe fee pressures have led to tough employment prospects in the current market.

If you weren't doing the job you are, what would you be doing instead?
In the ideal world I'd be involved with Formula 1 – my lifelong sporting interest. As I'm even older than Michael Schumacher, I'd probably sadly be on the management side of the business as opposed to driving.

What was the first record you ever bought?
Band on the Run by Paul McCartney's band Wings

What book is on your bedside table?
The Sense of An Ending by Julian Barnes

How do you spend your free time?
Playing squash, golf, tennis, walking, cutting the grass, and too rare trips to the theatre and cinema.

Andrew is a member of the Management Board, a past Chairman of the IPF and a member of the Membership Committee and the CPD Group.

What's on your iPod?
Coldplay and Kid Abelha (Brazilian band), amongst a lot of other middle of the road stuff.

What keeps you awake at night?
Right now, the thought of the speech that I shall be giving at Sports Day at the school where I am Chairman of Governors!

Neil Turner, Head of Global Fund Management, Schroder Property Investment Management

What brought you into the property industry?
Like many undergraduates, it was the course that attracted me, rather than a career in investment management or surveying. At that time, I did not know that such careers existed but am certainly enjoying it!!

How has the property industry changed for you since you joined?
There have been many changes, but the one that stands out for me is the openness and transparency that we enjoy in the industry today. When I started in property research, indices were nascent and getting hold of data was always problematic. Today, we have more information than ever before and the skills required are in making sure that we do not over interpret and over-rely on quantitative techniques.

How do you feel about the future of the industry?
The near term will continue to be a very challenging environment for all. The key issue remains debt and how the future capital structure of property investing plays out. The investment management environment in general (across all asset classes) will be tough and we have to recognise this.

If you weren't doing the job you are, what would you be doing instead?
I wanted to play football for a living when I was (much!) younger. Once it became clear that was not going to happen, I focused on getting a degree and developing my career. Not sure there is anything else out there that I would rather be doing!

What was the first record you ever bought?
Pretty Little Angel Eyes by Showaddywaddy!!

What book is on your bedside table?
This Time is Different – eight centuries of financial folly. It was written by Rheinhart and Rogoff and is the best summary I have ever read about the huge financial problems that we now face.

How do you spend your free time?
By spending as much of it as possible with my family.

Neil is a member of the Management Board and a member of the International Group. He also chaired the IPF Vision Group.

What's on your iPod?
I don't have one!

What keeps you awake at night?
As a father of two young children, I often reflect on what the future holds for them. Their generation will face some massive problems – in my opinion larger than my generation and certainly greater than their grandparents' generation.

Forum activities and announcements

IPF Executive

Georgina Martin has joined us as Educational Events Manager. She is your first point of contact for all lectures seminars and workshops, both in the regions and London. George can be reached at gmartin@ipf.org.uk or on 020 7194 7926.

IPF Annual Dinner 2012

Jonathan Edwards, CBE

The Annual Dinner took place on Wednesday 27 June 2012 at the Grosvenor House, Park Lane, London W1. After Dinner, Jonathan Edwards gave the audience an insight into his athletic career and his involvement in the London Olympics. This event was kindly sponsored by Jones Lang LaSalle, Langham Hall and Valad.

Chairman Amanda Howard (middle) with Pam Craddock and Sue Forster

Investment Education Programme

The Investment Education Programme 2012-13 cycle will be commencing with Investment Valuation and Portfolio Theory on 8-10 October.

The Programme consists of seven modules, the successful completion of which leads to the IPF Diploma. A new version of our brochure is available from the IPF website – or if you would like to discuss education opportunities in person, please contact **Frankie Trailor**, or the Programme Office (01223 760860)

LinkedIn

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

IPF/BGC Property Futures Portfolio Game

32 teams of fund managers and investors took part in the first Property Futures Portfolio Game which ran over the course of eight weeks from May to July.

The aims of the game were to:

- Introduce on-exchange property futures at segment level;
- Highlight the possible benefits of trading futures contracts in terms of cash and liquidity management and short-term risk management; and
- Provide information about set-up considerations, e.g. relationships, clearing and collateral management

The team with the best risk-adjusted return performance was CBRE 2, led by **James Clifton-Brown**. Second was the Kames Capital team, led by **Tony Yu** and third was the Church Commissioners' team, headed by **Chris West**, which also produced the best absolute performance.

The IPF would like to thank **Jon Masters**, **Gary McNamara** and **Charles Ostroumoff** (all of BGC partners), **Kelly Cleveland** of British Land, **David Baskeyfield** of LaSalle Investment Management and **Paul Ogden** of InProp Capital for their time and expertise in designing the Game and originating the economic and property scenarios.

IPF Midlands Lunch 2012

Graham Cartledge, Simon Robinson Phil Clark

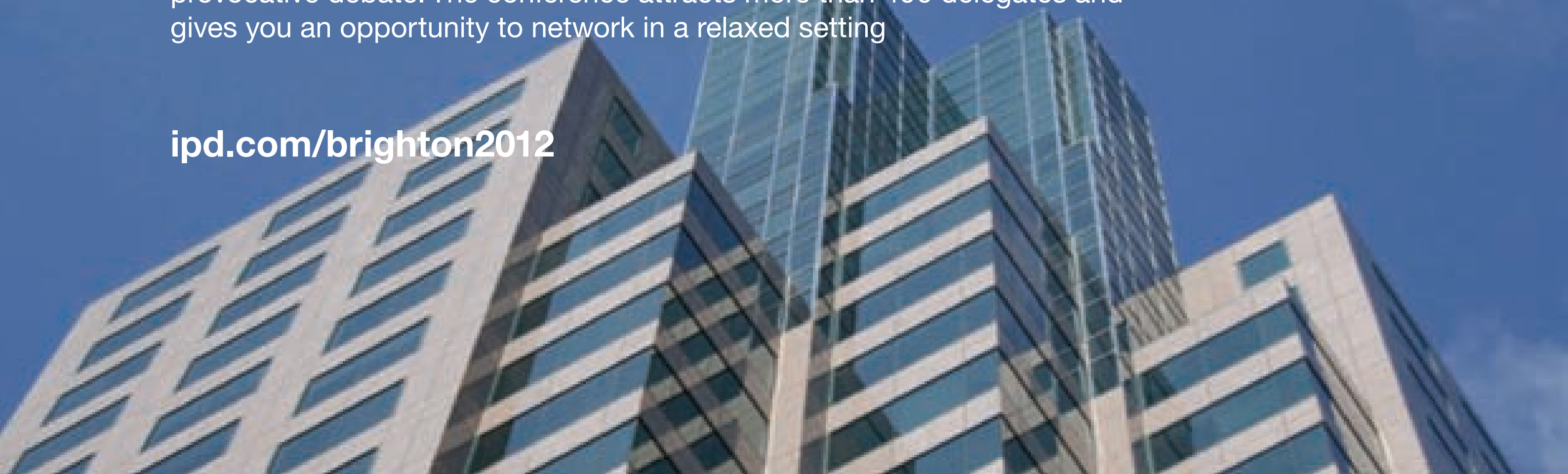
The Midlands Lunch took place on 18 May 2012 at the ICC in Birmingham. A bumper audience of 391 listened to **Graham Cartledge** outlined how he had grown Benoy from a Midlands firm to a global brand and the challenges of doing business in Asia.

Speakers at Alastair Ross Goobey Memorial Lecture

IPF at King's Cross Central

Alastair Ross Goobey Memorial Lecture

The second **Alastair Ross Goobey Memorial Lecture** took place on 12 June at Central St Martins at King's Cross. The event was kindly sponsored by King's Cross Central. **Sir David Clementi** chaired the lecture, with **Paul Tucker** providing the key note speech, and **Stephen Hester**, **Ian Cheshire**, **Paul Brundage** forming the panel.



IPF Investment Property Forum

Midlands Dinner 2012

Thursday, 18 October
ICC, Broad Street, Birmingham
18:30 Pre-dinner drinks **19:30** Dinner | Black Tie

Guest Speaker: **John Prescott**
Deputy Prime Minister (1997-2007)

This event is kindly sponsored by:

ABSTRACT LAND

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LLOYDS BANK

LOCKTON
Insurance and Risk Management Specialists

Ticket price: **£90 + VAT**

£108 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