IPF Research Programme

Capital market trends under different debt availability regimes – Invitation to Tender

Background
The current real estate investment market is believed to be very equity-driven, given the costs of debt are too high to be accretive in many cases. This has prompted considerable discussion about when debt costs will fall or property yields will rise enough to make debt accretive again, and thus see liquidity improve. However, in the past, there have been full decades when debt has not been accretive to returns but investment markets continued to function. It is also the case, in some other jurisdictions, that prime property yields are more permanently below bond yields.

How can debt costs be reliably measured, or estimated historically? Are there lessons to be learned from prior periods of varying debt costs, and could these then be applied to a future scenario where interest rates do not fall back as expected?

Research Aims
To highlight these issues and provide an understanding of the investment implications for investors, the IPF wishes to commission a study that will explore the real estate investment market during a number of scenarios. Three scenarios have been suggested:

1. Periods of non-accretive debt;
2. Periods of selectively accretive debt; and
3. Periods of widely accretive debt

Within each scenario, it would be of interest to know:

- How the prevailing cost of debt can be known or estimated;
- The mix of capital sources/active investor groups/domestic vs cross-border investment;
- The role of real estate in multi-asset class portfolios;
- The motivation of investor groups for being active (or absent); and
- The investment styles this leads to, i.e. core, value-add, opportunistic.
- The anticipated returns associated with those styles under different regimes;
- The decomposition of those returns into income return, income growth, and yield effects

The work is not intended to guide the reader's expectations of which regime may be likely in future, rather to allow the reader to see the implications according to their view of the interest rate / debt availability & cost outlook.

As well as factually considering what happened in each regime, the work should consider whether the same would likely be true now in a return to such a regime. As such, the work should consider broader trends in global real estate capital markets, such as greater professional management and improved transparency.

Approach
It is proposed that the project would ideally look back to at least the 1980s and segregate the period into different debt cost/availability regimes. Three scenarios have been suggested above but the research team may recommend a more appropriate segmentation.

While it is likely that the UK will be a key focus, the research can and should look for evidence across other jurisdictions. For example, in markets where prime property yields are more permanently below bond yields.

Recorded, reliable datasets on debt costs are known to be an area of limited transparency in real estate research, and as such a key contribution of this project might be to devise a rigorous approach for estimating or proxying the cost of borrowing against different types of commercial real estate.

Scope
It is expected that the scope of conclusions may be restricted to the UK, given data availability.

Outputs
The principal output will comprise a formal report (including an executive summary) of approximately 20-30 pages. The report should be written in a succinct style and conclusions should be clearly practical and relevant to the real estate investment community.

In addition, the authors will be required to support any IPF-organised events arranged to promote the report on publication.

Research Monitoring
Under the chairmanship of David Inskip, CBRE Investment Management, a Project Steering Group (PSG), will act as a monitoring group to oversee the research and to provide constructive support to the appointee. The membership of the PSG will include IPF Consultant, Rachel Portlock, and other parties knowledgeable in the subject area.

The research team will be required to liaise with the IPF Consultant and CEO, Sue Forster, at regular intervals throughout the duration of the project, in addition to pre-agreed meetings between the team and the PSG during its term.

The PSG will also be responsible for approving the final Report prior to publication.

Project Duration
The findings of the research should be available for dissemination within a period of four months following the appointment of the contractor.

Appointment Process
A formal proposal, including an indication of jurisdictions to be included and outline of intended scenarios, should be submitted by email to the IPF Consultant, Rachel Portlock (rportlock@ipf.org.uk) by close of business, on Friday 22 November.

Submission Guidelines are available to download from the IPF website or may be provided on request. All research funding proposals must conform to the requirements of these Guidelines.

The IPF reserves the right not to proceed with any proposal, as well as to appoint a research team without conducting interviews.

Cost
As a guide, the typical budget the IPF sets aside for reports of this nature is up to approximately £30,000 (net of VAT), excluding production and dissemination costs.