



Investment
Property Forum

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IPF MIDLANDS NEWSLETTER

FEBRUARY 2019

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CHAIRMAN'S INTRODUCTION

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DAMIAN LLOYD - MIDLANDS CHAIRMAN



A massive thank you from me to you, our members, as well as the Midlands IPF Board for the support you are showing me in my year as Chair. Thanks to everyone who has contributed to this newsletter but especially Andrew Brazier and Gary Rouse who work tirelessly on its production. In other Board news we say 'au revoir' to the fantastic Rachel Williams, who will be taking a few months away from her Board duties on maternity leave. We wish her and her husband Russell all the best when welcoming their new addition.

A big thank you to that larger than life property 'character' Rupert Young for featuring in our 'In conversation with' - I'm with you Rup on 'Burgundy or Bordeaux?'

I feel immensely proud to have been given the great honour of serving as Chair of the Investment Property Forum, Midlands Region. The members of the IPF are the expert deal makers, the incredibly effective fund and asset managers, the people that do the numbers and arrange the finance, the developers, the sharpest of legal minds - the very people who bring investment and enterprise to the blooming commercial property market in the Midlands.

Our members have been responsible for some of the country's best investment deals and the most innovative regeneration and redevelopment projects right here in the Midlands! The Midlands regional market attracts huge interest from right around the globe. In a world with a degree of upheaval, unrest and uncertainty, our IPF members work with conviction, clarity and confidence.

I am serving just a single year as your Chairman and have decided to focus on just a single issue - that of attracting more young talent into the IPF fold. I would therefore like to encourage each and every one of us to do everything we possibly can to bring forward the next generation - extol the many virtues of our organisation to younger colleagues, commend them as members to anyone on the IPF Board.

This year we will be running a programme of events concentrating on 'The Fundamentals' of our business and some of these events will be suitable for our young talent. We are really keen to identify suitable future members who may not quite qualify for membership yet, but will benefit from an insight into the IPF. We would like to extend an invitation to a selection of events that are relevant to them, without charge. Can you please help us to identify our 'Young Talent' that may well become suitable candidates for membership? Please email me directly with suggestions (damian.lloyd@avisonyoung.com) so we can include them.

Let us all work together, not only to attract even more investment into our wonderful region, but also to ensure that we establish a legacy for future generations of members.

On behalf of the Midlands Board, I would like to wish you a prosperous 2019..... let's face those political headwinds together and *let's do some business!*

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WHAT'S THE MIDLANDS IPF CURRENTLY DOING?

RECENT EVENTS

Core: Logistics

13 June 2018, Birmingham

Core: Retail Warehousing

12 September 2018, Birmingham

Midlands IPF Members' Drinks Reception

14 September 2018, Birmingham

Proptech

9 October 2018, Birmingham

Midlands IPF Annual Dinner

18 October 2018, Birmingham

Bank of England/Royal Bank of Scotland Economic Briefing

5 November 2018, Birmingham

Midlands IPF Members' Drinks Reception

23 November 2018, Nottingham

MSCI 2018 Results Launch

12 February 2019, Birmingham

FUTURE EVENTS

Service Charge Changes

19 March 2019, Birmingham

Midlands IPF Members' Drinks Reception

22 March 2019, Birmingham

Core: Offices

March/April 2019, Nottingham

Bank of England/NatWest Economic Briefing

April 2019, Nottingham

Company Voluntary Arrangements

April/May 2019, Nottingham

Cass CRE Lending Report 2018 and Question Time

8 May 2019, Birmingham

Cass CRE Lending Report 2018 and Question Time

8 May 2019, Nottingham

Midlands IPF Annual Lunch

17 May 2019, Birmingham



Click [HERE](#) for the most up to date version of the calendar-

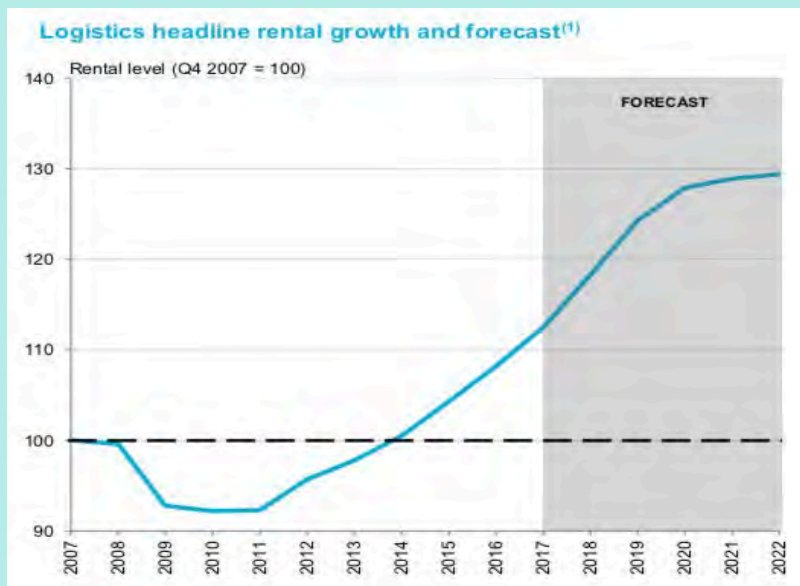
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LOGISTICS: The Road Ahead for the Property Market

As part of the IPF Midlands' Core Seminar series Cushman & Wakefield kindly hosted members at their offices. Three logistics experts offered their views from their own perspectives - that of a Landlord, an Occupier and an Advisor.

Landlord - Sally Bruer, Head of Research for Tritax Big Box, which owns 18 warehouses in the Midlands. Over the last five years it has invested £6.221bn in the Midlands. The Midlands is a target for industrial investors due to the amount of investment stock, and locational advantages, with strong rental growth expected in the next five years. A greater disparity between prime and secondary rents with a discount of around one-third is anticipated as there is a flight to quality by both occupiers and investors. The tight labour market means there is difficulty recruiting staff especially HGV drivers, mechanics/fitters and transport managers.

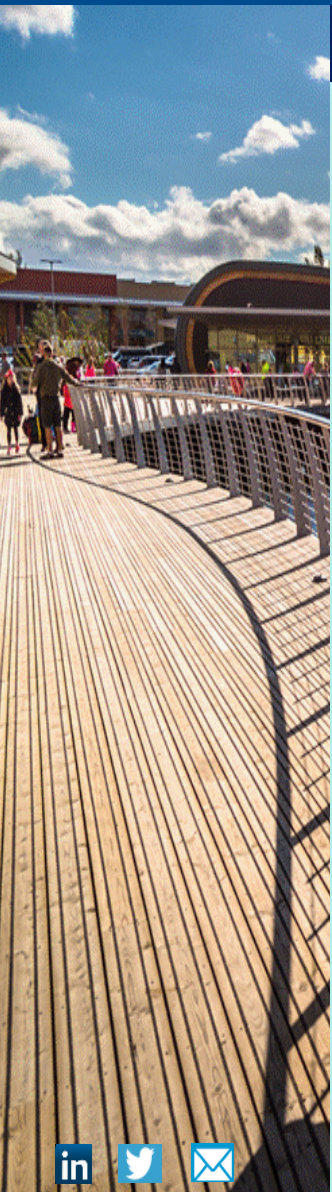


Occupier - Kevin Sey, VP Corporate Real Estate UKI & SSA, explained how DHL, Europe's largest postal service, managed to deal with the 30m sq m of warehouse accommodation it occupies - which is 10 times the area of the City of London. DHL is pushing ahead with its Go Green initiative under which the company aims to have zero carbon emissions by 2050. Whilst reducing its carbon footprint it will also save costs. DHL has opened a second manufacturing facility enabling it to build up to 10,000 electric Street Scooters each year. The company is reviewing its building portfolio and specification for new builds that will include a range of energy efficient initiative including LED lighting, smart meters and better thermal installation.

Advisor - Simon Lloyd, Partner, Cushman & Wakefield gave an overview of the market, including recent transactions that had occurred, together with the issues facing the Midlands.

Members can download the slides for this event [HERE](#)

MIDLANDS EVENTS



RETAIL WAREHOUSING - Repositioning Retail Warehousing for the 21st Century

Guest speakers Hannah Milne, Director Regional Portfolio at The Crown Estate, and Grant Imlah, Agency Partner at Avison Young, addressed the concerns of the market head on. With tenant failures and CVAs being announced every week, where does the Retail Warehouse sector sit?

Hannah highlighted a strategy to invest in the very best assets in class to protect value. Owners with total ownership of a retail park can manage the sense of place, experience, and technology, unlike the town centres that have a multitude of owners. The Crown Estate's involvement in Rushden Lakes from the outset allowed the scheme to evolve in a way desired by a long-term investor.

Grant highlighted the size of the market in terms of floorspace with 11% affected by CVA and administration, but only 4% of the space was Tier 3. He highlighted those retailers that were expanding and trying new concepts and identified those retailers that still had further challenges to come from the online retailers. In the last 12 months Avison Young had let 89 units with 17 showing a rental increase. Whilst void rates were 4.9% in Q4 2017 these were predicted to rise to only 6.67% following the CVA space becoming void. Tier 1 Retail Warehouses (Rushden Lakes/Fosse Park) and Tier 2 (Solihull Retail Park/Castle Vale) would prosper but the Tier 3 would need to consider non-retail such as warehousing or self-storage.



Members can download the slides for this event [HERE](#)



MIDLANDS EVENTS – MEMBERS DRINKS

PRIMITIVO, BIRMINGHAM MARCH 2018

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HARTS, NOTTINGHAM NOVEMBER 2018

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FREETHS INNES ENGLAND



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contact:

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Andrew Mair
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MIDLANDS EVENTS – ANNUAL DINNER



Over 600 members of the Midlands IPF and their guests met in October for the annual IPF dinner at Birmingham’s ICC. This year’s speaker was the ever popular comedian and writer, Meera Syal. Meera’s lengthy list of TV credits include Doctor Who, Holby City, Absolutely Fabulous and Drop the Dead Donkey.

One of the country’s most popular comic and dramatic performers and writers. Meera has taken starring roles in hit programmes as diverse as Broadchurch, The Split and The Kumars at No 42 after initially coming to wider attention in the sketch show Goodness Gracious Me. As well as appearances on the big screen and in the theatre she is also the author of acclaimed books Anita & Me and Life Isn’t All ‘Ha Ha Hee Hee’ which have led to a film and a TV series.

Being a Midlander she was able to connect with our audience by combining her fascinating journey with her well written sketch show style humour. The packed room thoroughly enjoyed her funny, genuine and personal performance.



RECENT MIDLANDS DEALS

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54 HAGLEY ROAD, EDGBASTON, BIRMINGHAM

Date - November 2018

Price - £23.75m

Initial Yield - 7.64%

Purchaser - Aberdeen Standard Investments (agent Avison Young)

Vendor - Palmer Capital/Opus Land (agent Savills)

Comments - A great example of institutional faith in the future of Edgbaston as an office location now that about 1m sq ft of older offices have been converted for alternative uses.



2 COLMORE SQUARE/CANNON HOUSE

Date - July 2018

Price - £94.70m

Initial Yield - 6.38%

Purchaser - RPMI Railpen (agents Avison Young/V7 Asset Management)

Vendor - Nurton Developments (agent CBRE)

Comments - The building's proximity to the new HS2 Curzon Street station, the low rents and the asset management opportunities provide long-term opportunities for growth. The deal size is a real vote of confidence in the Birmingham office market from a major UK Institution.



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BROADWAY PLAZA, EDGBASTON, BIRMINGHAM

Date - September 2018

Price - £46.9m

Initial Yield - 7.0%

Purchaser - Legal & General (agent KLM)

Vendor - Aviva Investors (agent Knight Frank)

Comments - At a time when the leisure sector has been struggling nationwide this institutional purchase reiterates the compelling confidence in the Birmingham market.



SCREWFIX DIRECT, CHARTWELL DRIVE, WIGSTON

Date - November 2018

Price - £925,000

Initial Yield - 5.05%

Purchaser - Hammond Grange (agent Andrew & Ashwell)

Vendor - Carbide Properties (agent FSP)

Comments - The sharp yield paid of 5.05% for a sub £1m lot shows the private investor market is still very active.



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UK CONSENSUS FORECASTS



A survey of independent UK property forecasts from 25 leading consultants and fund/investment managers, generated between late August and mid-November 2018. Aggregated forecasts are reported for rental and capital value growth and total returns on a yearly basis to 2022, together with five-year annualised averages. Coverage is at the UK All Property plus individual sector levels, as well as the two central London office sub-markets.

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CURRENT PRACTICES IN BENCHMARKING REAL ESTATE INVESTMENT PERFORMANCE



Benchmarks provide the basis on which performance is monitored and judged and can also be used to determine strategic asset allocation, as well as form the basis of and characterise investment mandates. This study examines the nature of benchmarks and investigates their range and application, predominantly in relation to the UK private real estate market but also extending to international investment practices.

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MANAGING CURRENCY RISK IN INTERNATIONAL REAL ESTATE INVESTMENT



Exchange rate fluctuations can lead to substantial changes in the domestic currency value of cash flows from, and valuations of, international real estate investments. Currency movements lead to additional uncertainty about future returns and can dominate underlying property returns. This latest output funded by the 2015-2018 Research Programme examines contemporary market practice in the management of currency risk for foreign real estate investment

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REAL ESTATE INVESTMENT IN UK DEFINED CONTRIBUTION PENSION SCHEMES



This research is an investigation of the current scale and appetite for real estate in UK defined contribution (DC) pension schemes and casts light on an area of the market where little data has been available to date. Based on interviews with over 150 DC schemes, representing more than 850,000 members, the report provides a measure of current exposure, as well as a number of projections for growth in property investment in DC schemes over the next decade, driven by the introduction of auto-enrolment, which could see a doubling in workplace DC membership and potential tripling of assets under management.

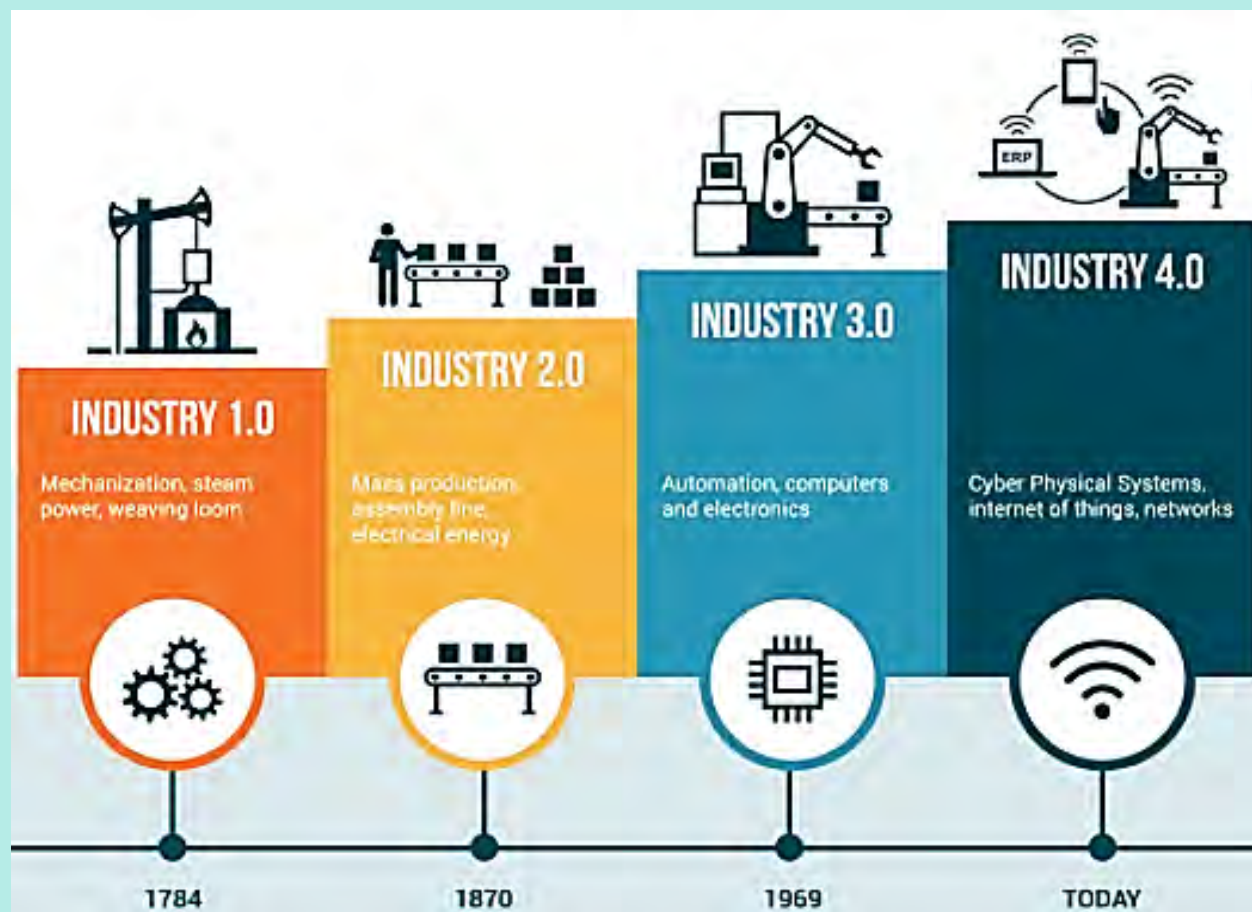
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COMMENTARY – PROPTech

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PROPTech – ARE WE BEHIND THE CURVE?

The world in which we live is in a constant state of change and that is especially true in business. It started with the industrial revolution, carried through into the technological revolution then the digital revolution and today we are in the virtual revolution. This change has significantly impacted real estate from the way we communicate with each other to the redundancy and redevelopment and refurbishment of property. These forces are impacting on jobs and the skills that the modern workforce requires. Take the legal profession for example, artificial intelligence is being used to compare documents and help draft legal agreements which is changing the recruitment profiles of these firms. Uber is replacing the traditional taxi model and with the likely advent of driverless cars that industry will see further disruption. Amazon is currently the UK's 5th largest retailer accounting for £4 of every £100 spend creating structural change on the high street and associated impact for property.



It was Leo Tolstoy who once said "everyone thinks of changing the world, but no one thinks of changing himself." Part of the challenge of these changing forces is the impact on the generations.

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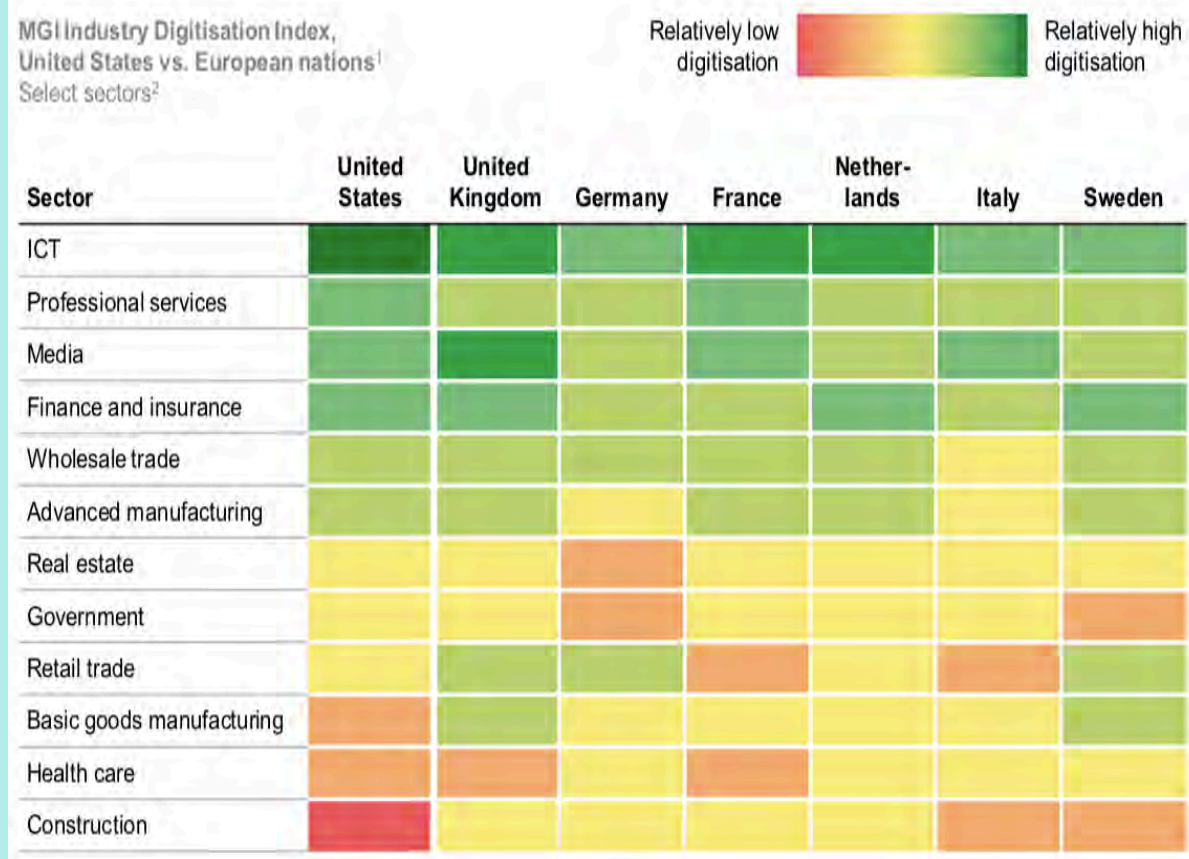
PROPTech – ARE WE BEHIND THE CURVE?

The younger generations are much more adaptable to change and actively embrace it. This leads to a mobile workforce seeking out-of-life experience whereas older generations tend to be much more stable and stay working for the same firm for the majority of their careers.

So what does this all mean for property and what actually is PropTech? According to James Dearsley, "PropTech (Property Technology) is the name given to technological innovations that are developed for and implanted within the property industry. At the same time, PropTech refers to the industry, or movement that the innovation comes out of The PropTech Industry."

Property is perceived as a traditional industry of bricks and mortar and resistant to change. As shown by McKinsey's recent review of industries across Europe, Construction is the least digitised sector, with Real estate faring only slightly better coming in third from bottom in the UK.

The industry is therefore ripe for change, however, much of the recent developments have been in the residential sector. Companies such as Airbnb and Purplebricks are challenging the established estate agency models driving down costs and creating a more transparent market place.



COMMENTARY – PROPTech

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PROPTech – ARE WE BEHIND THE CURVE?

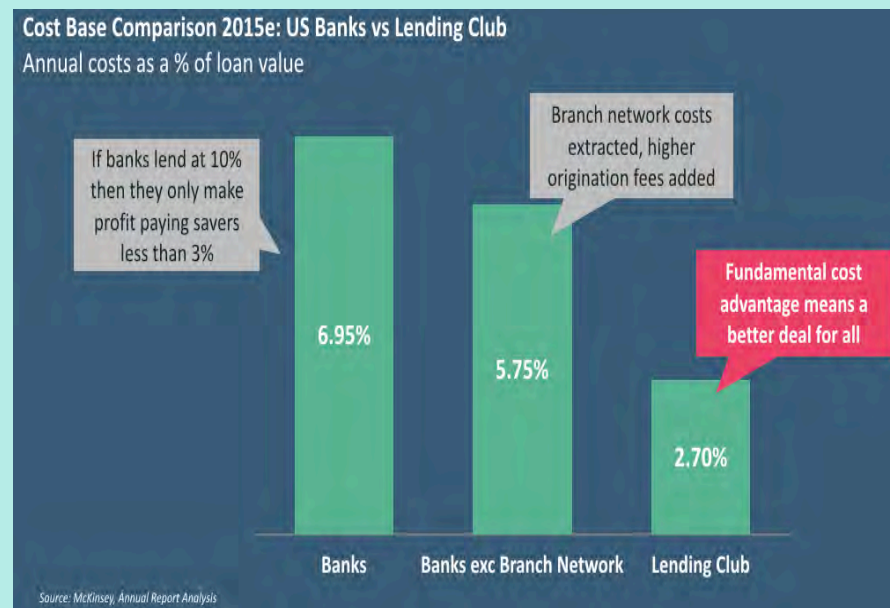
Peer-to-peer lending is having an impact on residential development finance. The traditional funding route involves a retail investor being advised by an IFA to invest in a pension fund, which in turn invests in a property lender such as a High Street bank who engages with a broker, with the money eventually lent out to a developer. Each step incurs costs and fees. Peer-to-peer lending aims to go direct from the retail investor to the peer-to-peer Lending platform and then straight the Developer thus creating a much more efficient and cost effective model.

By way of comparison and based on a McKinsey report, if a traditional High Street bank lends out money at 10% it has costs to absorb of nearly 7%, resulting in only a 3% profit margin. Peer-to-peer lending, however, is able to operate at sub-3% cost base, creating a fundamental advantage to the traditional route.

So far companies such as Crowd Property based locally in Edgbaston are having good success in financing residential developers on specific schemes. Crowd Property is experiencing strong demand from investors, with newly-launched projects often being oversubscribed in a matter of minutes.

The impact of PropTech on commercial property is arguably less apparent than residential partly due to the inherent complexity of commercial transactions. That said commercial property data provider Costar Group which was established in the 1980s currently has a market capitalisation almost the same as largest listed property advisor CBRE. This is particularly interesting as CBRE has turnover of nearly \$14bn compared to Costar's circa \$1bn, demonstrating investor insight as to perceived future growth in the industry.

The market is changing and the careers of property professionals will need to adapt. So PropTech - are we behind the curve? Well the answer to that question is almost certainly 'yes' and that in itself creates great opportunities as well as challenges going forward.



"IN CONVERSATION WITH" RUPERT YOUNG

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RUPERT YOUNG - MANAGING DIRECTOR, NURTON DEVELOPMENTS

What is your favourite building and why?

It has to be 103 Colmore Row, Birmingham. This may be unusual because it isn't actually built yet, but it is construction speculatively though, which is great to see, and well done to Rockspring as was and Sterling. I hope that it will be come a real focal point in Birmingham city centre, replacing what was, to my mind, an eyesore. Sorry but I just don't buy Brutiful Birmingham, it's an economic decelerator.

What is your sporting passion?

Historically rugby union (playing to a pretty poor until the age of 48) but nowadays it's game shooting. The pheasant don't have a 12 bore but then again I can't fly.

Ski or beach?

A bit of both. It's hard to read a book and sip a mojito when skiing, but the beach does get so awfully hot and I do get fed up of people throwing buckets of water over me to keep me breathing.

Which property company/developer/investor do you admire?

Nick Leslau in his various incarnations. He either calls the market early or in good time, but never too late (so far) and he has invested successfully across a number of sectors. Also, if you saw him on "Secret Millionaire" it's a lesson in how to invest wisely for good causes rather than just throwing money at a problem.

Rupert Young has been Development Director at Nurton Developments since he joined the company in 2008.

As a born and bred Midlander, he attended Solihull School and went on to study surveying at the University of Portsmouth. He qualified at Hillier Parker in the 1980s and then moved to open an office for them in Birmingham in 1995. Hillier Parker subsequently morphed into what today is CBRE.



What was your first/favourite deal?

Selling the former Moorfields eye hospital on High Holborn in London in the late 1980s whilst at Hillier Parker into a frenzied development market. The office sweepstake got nowhere near the highest bid. I did 88 viewings in three weeks. One Friday afternoon a 'name' persuaded the naive young surveyor to take the lift when we hadn't first seen the security guard - who had bunked off. We were stuck for five hours and at one point though we might be there overnight. When he got slightly panicky I took enormous pleasure in slapping him.

What do you appreciate about the Midlands property market?

Being able to know a lot of people and the collegiate feel across all sectors and disciplines.

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RUPERT YOUNG - MANAGING DIRECTOR, NURTON DEVELOPMENTS

Which is your favourite bar/restaurant?

Bar - Primitivo, you can just drop in with a thirst on and bump into someone you know. Restaurant - probably San Carlo although it's disappointing that the waiting staff aren't quite so rude as they used to be.

Which property sector do you think will outperform the market in the short term?

Excluding changes of use I think it will be regional offices, particularly good quality refurbishments. Surely sheds can't get much hotter? Retail is under demolished and residential land fairly valued.

How did you end up in the property profession?

Having realised at the 11th hour and 59th minute whilst in South Africa in the summer of 1983 that my late father (Forbes Young FRICS) loved his job, I turned my back on a place to read mining engineering at Leeds University as well as Sandhurst and the Irish Guards and instead went to read Urban Land Administration at Portsmouth Polytechnic, that hallowed seat of learning.

Which is your favourite city?

Chicago, because that's where we are off to next year and I know a great rugby song about it.

Burgundy or Bordeaux?

Amstel

What will be the key driver for UK property going forward?

Confidence, corporate investment, Central Government investing in the regions and remaining attractive to foreign capital.

Who is your favourite architect?

Anyone who can avoid a vanity trip designing a building that ends up being Listed or will never be built because it doesn't make economic sense.

What else are you involved in?

Property for Kids, The Old Silhillians Association (former pupils of Solihull School) and I'm about to join the Birmingham Hippodrome Development Board.

Would you encourage any of your family to go into property?

Absolutely if they wanted to. Property can suit all shapes and sizes and personalities. There's always an argument that one might make a few more quid in the law or accountancy but I have always enjoyed being in property in good times and bad and in a number of sectors. Not all of my friends in other sectors can say that.

Do you have a pet?

Two black Labradors who are uncle and niece called Bosun & Nell.

Will you ever retire?

Not in the true sense of the word because strategic land deals, for example, can go on for a long time. Offers of property related non-exec positions, however, would be gratefully received!!





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