Investment Property Forum

THE JOURNAL OF THE INVESTMENT PROPERTY FORUM
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INVESTMENT PROPERTY FOCUS

In this issue:

'The programme has been re-worked to become even more informative and relevant. If you're considering furthering your property investment knowledge, here is a great place to start.'

Max Johnson (former IPF student), ING Real Estate Investment Management (UK) Ltd

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Portfolio Management	3 – 5 September 2007

From the editor

The articles in this edition of Investment Property Focus underline just how much the property investment market has changed in the last five years, let alone the last decade. We have seen a dramatic growth in cross-border investment, the development of financial instruments such as derivatives and, not least, the introduction of UK REITs from January 2007. Not surprisingly, discussion on the role of direct and indirect property investment in the portfolio has taken centre stage, particularly given the renewed emphasis on liability-driven investment (LDI).

Philip Booth of City University explains the current fad for LDI by tracing the changes in pension fund strategies from the early post-war period of matching liabilities with bonds, through the decades of high inflation when equities ruled, to the current environment where pension fund liabilities are more closely defined by legislation and companies are being forced to review whether they can deliver on their pension promises. Booth's analysis suggests that optimal property allocations in the portfolio are likely to be above current levels, but required flexibility may also increase demand for innovative property investment products. Guy Morrell of HSBC and his co-authors put forward a cogent argument for using property in the context of helping to match liabilities, although Andrew Walker of Watson Wyatt suggests that pension funds will place more emphasis on the use of structured products, such as swaps and options, to address the issues raised by LDI, rather than just sticking to physical assets.

Tim Horsey reports on the recent IPF meeting on global REITs. While welcoming the prospect of REITs being launched in more jurisdictions, not least Germany and the UK, the speakers did not envisage a revolution in the direct property markets, certainly in the short term. As Joaquim Ribeiro of Sonae Sierra pointed out, REITs in the USA have existed since the 1970s and only really took off in response to a crisis in the market. The impact of REITs was also discussed at the third IPF Scottish conference, held in September. Paul Findlay provides a summary of the proceedings, which centred on the topical issue 'Is property priced to perfection?'

The process of acquiring property is the focus of the latest IPF Educational Trust (IPFET) research undertaken in conjunction with the University of Reading. Pat McAllister sets out the study's key findings including observations on the role of introductory agents and agency costs.

A general theme running through all these articles is that the property professional needs to have a greater understanding of the wider investment world than ever before. At present those only dealing with and advising on direct property do not need authorisation as an Approved Person by the FSA. However as fund structures change, anyone concerned with shares or units in a fund is likely to need authorisation. Peter Pereira Gray, an IPF Management Board member and Chairman of the FSA Routes to Authorisation committee, and Philip Ingman, outline the progress made towards a property-based examination route for individuals to achieve Approved Person status.

A university research project funded by the IPFET, in conjunction with the RICS, examined Australia's legislative approach to tenancy matters in relation to small business tenants to assess its potential application in the UK. Neil Crosby, of the University of Reading, suggests that possibly the most relevant issues from a UK-perspective are those concerning the information given to tenants during the negotiation and formalisation of a lease.

Contributions to Investment Property Focus are always welcome so please contact us with any ideas or material you have for future editions.

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Indirect property routes to authorisation

Peter Pereira Gray, IPF Management Board member and chairman of the FSA Routes to Authorisation committee, and Philip Ingman, member of the FSA Routes to Authorisation committee, comment on the IPF's role and research into developing a property specific route to authorisation for the industry.

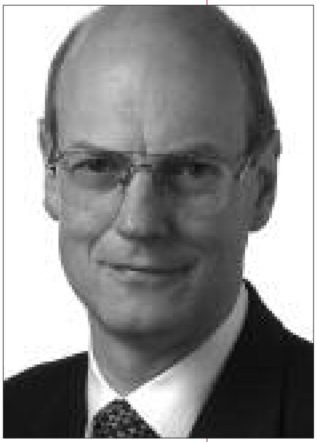
We live in a rapidly changing world. The property investment market looks nothing like it did five years ago and even less like it did 10 years ago. The growth in indirect investment, cross border investment, financial instruments such as derivatives and the introduction of REITs means the property investment landscape in the UK will never look the same again.

This brings new demands on the property professional, not only in terms of a wider knowledge base and different markets, but also upon the fund structures, their mechanisms, finance and fees. It is not just as simple as buying a building anymore!

This changing approach also means a change in the demands on individuals who are advising or managing such assets, none more so than in the regulatory world. Collective investment schemes and the shares or units in a fund are regulated by the FSA and thus to deal in them, advise on them or manage them, one needs to be an 'Approved Person' with the appropriate levels of competence working within an authorised framework. At present, only those dealing with and advising solely on direct property do not need authorisation.*

With the increased variety of indirect vehicles being invested in, more and more individuals require FSA authorisation, and none more so than many IPF members. Therefore, it was felt that the IPF should look to investigate existing authorisation routes to ensure members' needs were represented.

Currently, there is no property-based examination route for individuals to achieve Approved Person status and anyone seeking this approval needs to take qualifications much more suited to the equities and fixed interest markets (such as the IMC). The IPF, however, made great progress with both the FSA and the FSSC (Financial Services Skills Council) and now has an agreed and published outline syllabus for a property-based qualification that will enable property professionals to follow a relevant route to becoming Approved Persons.



Peter Pereira Gray, The Wellcome Trust

The next step for the IPF is to find an awarding body for the exam and this is currently being negotiated. An early part of this work to secure an exam provider is finding out how many in the industry are interested in taking such a qualification. Many of you received a questionnaire or participated in conversations that form part of IPF commissioned research with Bovill Consulting to quiz the industry on their needs. The results of this will be published shortly. Interestingly, early findings have highlighted some naivety in the market about the need for regulation and the routes to achieving individual approval.

Philip Ingman, SPREFS

If you have any further questions about this subject please contact Sabrina Wisner at the IPF by emailing swisner@ipf.org.uk

* Please note that the IPF cannot advise if a particular activity is regulated or not. If you have any doubts please speak to your compliance officer or contact the FSA at www.fsa.gov.uk

Markets in Financial Instruments Directive (MiFID) Workshop

A three hour workshop covering the outline of the new directive, how it differs from the existing regime and new requirements needed under MiFID.

Date: 20 February

Time: 9.30am – 12.30pm

Cost: £245 for IPF Members, £315 for non-members

Venue: tbc (London)

For more information please contact Suleen Syn by emailing ssyn@ipf.org.uk

LDI drives synthetic structures

Andrew Walker, Watson Wyatt Worldwide

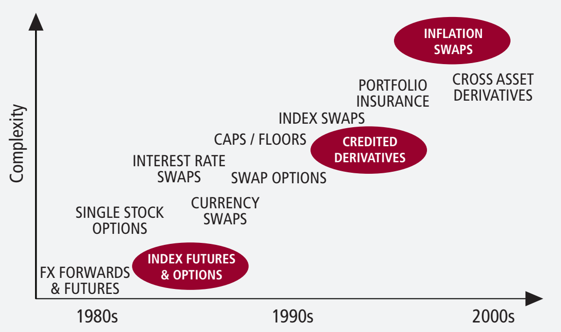
Andrew Walker looks at how UK pension funds are using structured products, particularly in the form of swaps and options, to implement liability-driven investment (LDI) programmes.

LDI means different things to different people. There is a spectrum of definitions from business as usual through to the use of structured products like swaps. Business as usual in LDI terms is simply the investment strategy most appropriate for meeting a fund's liabilities given their maturity. For a few, this could mean investing most of the fund in equities, but for most it is likely to involve higher bond weightings. LDI, using structured products, is an advance on this traditional investment approach, and entails using swaps whose market value alters in line with the valuation metric used for the liabilities. From Watson Wyatt's experience of LDI in the UK, pension funds are using structured products, particularly in the form of swaps and options, to alter the risk profile of a fund and increase its efficiency.

The global options and swaps markets have mushroomed in the past five years and are now far too large for pension funds to ignore, given the opportunities they present. Increasingly, players from all corners of the financial markets are coming together in their various capacities to devise appropriate and efficient portfolio management solutions. As more products are added they have grown in complexity and flexibility, however only some of these have obvious applications to pension funds. Most notable are inflation-linked swaps which pension funds can use to make their assets a better match for their liabilities in the long term. Also of interest are tailored options for increasing the efficiency of their assets. The acid test for pension funds is that these products must add value compared to other more traditional markets at the same cost/risk ratio.

Product evolution

Figure 1: Increasing complexity, increasing opportunity



There is a realisation among many pension funds that sticking to physical assets may not be efficient. There are several reasons why this is the case. Physical assets can limit the ability to add value to strategically chosen asset classes. An example of this is the effective removal of the credit spread when allocating to index-linked bonds. They can also limit stock selection to the market used, as by allocating to UK bonds one is automatically limited to UK issuers. Furthermore, physical assets limit the extent of risk reduction – buying equities gives you all the downside and when things go well the upside may be excessive. In bond space, duration remains an issue where the bonds held are not long enough for the liabilities. Having acknowledged the limitations of physical assets a pension fund will want to determine which, if any, is the appropriate 'synthetic' solution for them.

Inflation-linked swaps – mitigating risk, managing return

Looking at swaps first, in particular inflation linked swaps, the real benefit lies in their potential to reshape the return from assets by exchanging cash flows. In addition, these swaps can reduce risk and create the opportunity to add value both from credit and by active positioning from investment managers.

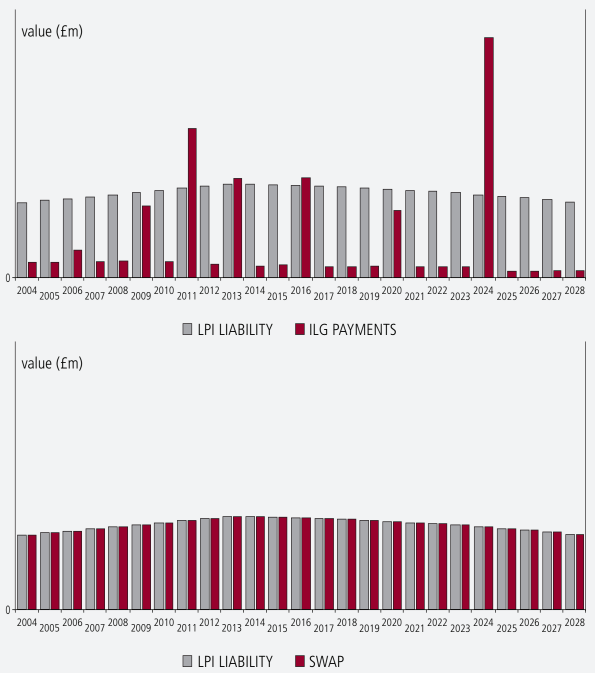
Many UK pension funds hold index-linked gilts to reduce risk, because they are regarded as a good match for liabilities. But there are only 11 index-linked gilt (ILG) issues and hardly any index-linked corporates. The typical pattern of payments over 25 years clearly does not match the pattern of liabilities, and pension funds can move to a better match through the use of swaps (see Figure 1).

In practice, the estimated liability pattern over 25 years is not quite this predictable, for various reasons. New accruals and membership changes will have an impact. In addition, demographics are not certain (people refuse to die on time), which is an issue in accurately matching long-dated liabilities. This means the process needs to be managed through time because a swap arrangement implemented today should be reviewed and possibly amended during the course of its life.

So how might pension funds pay for the swap? Here is one possible solution, sell their index-linked gilts to an investment bank and use the cash to buy a corporate bond portfolio. They then pay the bank a fixed payment (or series thereof) in exchange for an inflation-linked payment (they know they have this capacity because they just sold it to the bank). The net position is that the fund is then left with a portfolio of bonds and swaps that pays inflation plus a corporate bond yield pick-up. So in three steps they have effectively created a portfolio that is economically equivalent to holding index-linked corporate bonds.

A further advantage of using swaps is that they can be structured to match more closely a fund's liabilities than physical assets allow. A good example of this is in the form of inflation linkage that applies to pension payments. A very common form of inflation linkage is limited price indexation (LPI), which provides increases in line with RPI but only to a maximum of 5% in any year and with a 0% floor. There are very few physical

Figure 2: Inflation linked swaps mitigate risk



bonds providing this level of inflation linkage but swaps can be designed to precisely match such liabilities, further reducing investment risk for funds.

The technical issues regarding swap agreements are tricky for pension funds, largely because they are unfamiliar. A limited range of counterparties exists for inflation-linked swaps, and the process involves more people than trustees are used to dealing with. Collateral and cash flows must be managed on an ongoing basis, and will require some form of governance and administration. These problems may be complex but they are not insurmountable and must be weighed against the potential gain of creating a higher-yielding matching asset class.

Despite these issues, in the UK, Watson Wyatt has advised on 60 over-the-counter derivative and related executions for Sterling-based institutions, the total nominal exposure executed in those trades being some £30bn. This is an indication that derivatives are taking root, typically involving interest-rate swaps, inflation swaps or related instruments.

Equity feasts and famines

The traditional equity distribution has little relevance for most pension funds for a number of reasons. Firstly, pensions are fixed promises and are more like bonds than equities and the 'terms of trade' of equities into bonds is very volatile. Furthermore, a significant proportion of pension schemes are expecting to reduce equities in favour of bonds, which depends on the relative levels of equity and bonds markets.

Whereas pension funds have traditionally taken their equity exposure by simply buying and selling shares in the cash market, we believe there are very good reasons why pension funds should consider option strategies, especially in the current environment. Options are generally (but not exclusively) used in two ways by pension funds. They can be used to manage risk, so that funds have the right to sell an asset that has gone down in price – the put option. They can also be used to create income – a pension fund might sell call options to generate income but forego a part of large capital gains. One strategy that might be considered is for premium income to be used to increase benefit security through an option strategy using the 'feast' that the equity distribution can provide. For example a fund might be willing to forsake excess equity returns above 50% over a five-year period, say, and use the premium generated to provide some downside protection.

However, in addition to the complexities of contract negotiation, which is an important part of setting up an option strategy, pricing can also be difficult. The key drivers are the price of the underlying asset and the strike price. The time to expiration is also important (an option lasting one day will be worth less than one lasting 10 years for example) and so is the volatility of the underlying asset. If the asset is very volatile, the price will be high. Other factors include interest rates, cash flows on the underlying asset and dividends. Banks are beginning to offer customised options, such as contracts on the FTSE100 versus index-linked gilts. The downside is that these products are trickier for banks to hedge, so they are less liquid, less transparently priced and execution costs are higher.

The financial industry has been using swaps and options for many years and now they are becoming more attractive for certain pension funds. But before embracing the latest product, pension fund trustees need to ask themselves some important questions:

- Can we legally do this?
- Is there pricing transparency in this product?
- Has the entity trying to sell me this solution got the best product and price?
- Does the product do what I want it to do?

Having answered these satisfactorily, funds will be in a strong position to consider using LDI as a framework for a more flexible investment strategy. However, although there are good reasons to consider using such a framework, funds also need to ask themselves whether they have the governance to implement such a strategy.

Andrew Walker is a senior investment consultant at Watson Wyatt.

LDI – is it all it's cracked up to be?

Philip Booth, City University

Philip Booth, module leader on Financial Instruments and Investment Markets, part of the IPF Investment Education Programme, examines liability-driven investment and asks whether the more things change, the more they stay the same.

'Liability-driven investment (LDI) is a new fashionable idea among actuaries and investment managers.' This sentence could just as easily have been written in 1855 as in 2005 so perhaps we should calm our enthusiasm for this new game in town.

The collapse of The Equitable a few years ago was a huge calamity. Had it followed a liability-driven investment strategy in the 1980s and 1990s, by backing the options it had embedded within its policies with appropriate option products, it would have survived the financial turmoil. However, as The Equitable did not follow a liability-driven investment strategy for the best part of 230 years, conversely one could one question the value of LDI!

Fad or future?

In every Institute of Actuaries' examination I took in the late 1980s and early 1990s, the point that the liabilities of an institution should dictate investment policy was flogged to death. Indeed, my own co-authored textbook on actuarial science states: "For most institutional investors, investment risk is determined by the risk that the liabilities cannot be met. Therefore it is important that investments are appropriate given the nature of the liabilities."

So why this current fad for LDI? Is it just a marketing wheeze to help consultants increase their fee revenue?

In some senses actuaries have taken their eye off the ball when ensuring that investment strategies for institutions match liabilities. The case of The Equitable has already been mentioned. It is possible that this is true to an even greater extent in the case of pension fund investment management. Through the 1960s to the late 1990s, pension fund investment strategies became increasingly equity orientated – Table 1 shows that the average equity allocation in UK pension funds in 1997 was nearly 75%.

Interpretation of the figures in Table 1 is difficult unless we know the precise liabilities of the average fund. However, it is pretty clear that, unless pension fund liabilities are strongly correlated with equity returns, in the late 1990s there was a significant disconnect between asset and liability characteristics.

But there were good reasons for this. In the early post-war period, the liabilities of pension funds were relatively bond-like and inflation was stable and predictable. Appropriately, pension funds matched their liabilities with bonds.

Then along came the inflation of the 1960s and 1970s, bringing higher nominal salaries and higher liabilities. How were investors to respond before the development of an active index-linked bond market and when overseas investment was prohibited, as it was until October 1979? Their response was to increase investment in equities and property, seen as perfectly appropriate given the climate at that time. Indeed, even the residual equity risk was not especially great as pension funds were able to share risks with members by reducing the real level of benefits under certain conditions. Gradually equity allocations within pension funds increased to the levels shown in Table 1.

Table 1: UK Pension Fund asset allocations, 1997

Asset category	Average allocation
UK Equities	52.8%
UK Fixed Interest Securities	7.3%
Index-linked Bonds	5.5%
Overseas Equities	19.6%
Overseas Bonds	3.3%
Property	4.7%
Cash and other	6.6%

Asset Allocation of UK Pension Funds, 31st December 1997.
Source WM Company (All Funds Universe).

It is possible that a sense of perspective was lost. As all pension funds followed the same equity-driven strategy, their portfolios became increasingly similar. Fund managers came to be judged on their returns rather than their ability to match liabilities. The roles of investment managers and actuaries were disconnected when they should be intimately connected. But much else changed too that was outside the control of pension funds.

The pension promises that companies themselves had made remained the same, but governments changed them by legislation. Gradually the discretion of trustees and sponsoring companies to pass some of the risk of investment underperformance to scheme members was removed. Index-linking of pensions became mandatory, at least up to a limit; benefits to early leavers were enhanced; there were various pieces of legislation passed relating to benefits to women and part-time workers. No longer did pension funds have the ability to pass some risks to members, but their liabilities became tightly defined by legislation. These risks became transparent with the introduction of market-value-based accounting standards, the pension protection fund and the pensions regulator.

These changes transformed the nature of pension liabilities fundamentally. They focused the attention of regulators and investors on a much tighter definition of liabilities. If investment policy were to match liabilities it would also have to be less ad hoc in the future.

As the liabilities of pension funds became more tightly defined by legislation, shareholders began to realise that the risks they ran by providing final-salary-linked pensions were just too great. Some have stopped all future accrual of pensions for existing members. Others have just closed to new members. The result has been that, depending on various aspects of legislation, promises made by companies, the age profile of the members and the attitude of the trustees, different pension funds can have very different liabilities.

Liability driven investment, where now?

So, in effect, we have returned to the situation that has long prevailed with respect to life insurance funds. Different pension funds have different liabilities. And these liabilities are somewhat difficult to match with standard investment instruments. Pensions do not have conventional bond characteristics because they are normally, at least in part, inflation linked. Some pension liabilities have characteristics like those of index-linked bonds but pension funds would have to buy the current government index-linked bond portfolio 10 times over if they were to invest all their funds in index-linked bonds – private issues are trivial.

One possible approach to LDI is to use actuarial stochastic modelling to find different portfolios of standard 'vanilla' investments that produce different risk and return outcomes, where risk is defined in terms of the risk of not meeting liabilities. In turn, return is defined in terms of the return of the assets over and above the rate of growth of liabilities. In fact, actuaries have used this approach for the last 20 to 30 years, but the focus on market-value driven valuations will change the results. The implications for property investment are interesting. Using a very simple model, the author achieved the optimal allocations of property in different situations that are shown in Table 2.

Table 2: Optimal portfolio allocation to real estate

Type of portfolio and pension fund	Optimal allocation of assets to real estate
Immature fund, low risk portfolio	2.9%
Immature fund, medium risk portfolio	14.8%
Immature fund, high risk portfolio	26.3%
Mature fund, low risk portfolio	8.7%
Mature fund, medium risk portfolio	17.4%
Mature fund, high risk portfolio	24.6%

Given that many funds will not want to invest in the lowest risk portfolios, this would seem like a good opportunity for property fund managers. However, these results may well be a function of valuation-based data. Market-value based valuations of pension fund assets and liabilities focus on transaction prices and a valuation of liabilities based on market bond yields. Property values, though, are based on surveyors' valuations. It is a subject of ongoing research to examine the extent to which allocations to property will fall when valuations are adjusted to remove the effects of smoothing. My hunch is that it will produce optimal allocations above current levels but below the levels shown in Table 2.

This basic approach to asset allocation is relatively conservative. It will lead to a continued evolution of pension fund investment towards bond-based strategies but there will be no revolution in investment attitudes. An alternative viewpoint suggests a completely new approach to investment.

The technology exists to model the cash flows from pension funds with precision. Funds can then buy structured asset products that match their liabilities more precisely – mainly using combinations of bond-linked investments and derivatives, but also specially designed hedges against inflation. For funds with few active members such a strategy may be cheaper as funds rarely need the complete protection from inflation that index-linked bonds provide – pension increases for non-active members are normally capped. If inflation is 8% and pension increases are capped at 3%, the fund may as well have the opportunity to sell the additional 5% uplift in index-linked bond payments. Structured derivative products allow pension funds to do this.

Structured products also allow pension funds to analyse and trade credit risk more precisely and create asset portfolios that have very long durations and a high interest rate sensitivity, thus helping them to match their long-term liabilities better. But, there is a limited capacity in any derivative market, if there is a shortage of underlying assets to hedge the risk.

Property may have a role here. It has many useful properties from an LDI point of view, but more flexibility may be needed. Pension funds might want to buy securities backed by different tranches of rents. Some pension funds may be willing to take the risk that rents will fall due to voids or other factors, some may want to buy into rental growth, while others will want to receive specific long-term cash flows with a great deal of certainty. Securitisations and property derivative products may allow investors to divide up the rents from standard property portfolios and add value by providing securities with different characteristics for different investors. Thus, LDI may well increase the demand for innovative property investment products.

Conclusion

LDI is nothing new but there are new aspects to it. Final salary pension funds are on the decline. They are becoming increasingly diverse in their liability structure. Companies need to close out the risks that have been imposed on them by regulation. The financial innovations have taken place to allow more sophisticated LDI strategies. This is not a revolution but it will lead to change.

A perfect match? Exploring commercial property's liability matching qualities

Guy Morrell (HSBC Specialist Investments Limited), Martin Cumberworth (Prudential M&G), Chris Waites, Simon Jones (PSolve Asset Solutions), Gerald Blundell (LaSalle Investment Management), Andrew Walker (Watson Wyatt Worldwide), George Matysiak (University of Reading, Natalie Winter (PricewaterhouseCoopers).

This is a summary of a paper delivered to the Institute and Faculty of Actuaries, and to the Investment Property Forum.

Guy Morrell, HSBC

The increasing focus on liability matching

Financial markets have experienced dramatic changes in recent years. UK gilt and other fixed income yields fell dramatically in the last decade, with enormous consequences on the valuation of liabilities and the level of prospective returns. Sustained falls in global share markets during the three years to the end of 2002 called into question the appropriateness of high exposure to equity markets for both pension and insurance companies.

Financial market developments were complicated by changes to pension and insurance company accounting. In the UK for example, the introduction of FRS17 requires pension fund liabilities to be valued using AA bond yields as the discount rate. The resulting surplus or deficit will appear in company balance sheets and will be subject to the volatility of financial markets. Much of the discretion previously enjoyed by companies has been removed.

Further pressure on ability to match liabilities is coming from changing demographics. Fertility rates have fallen significantly in many countries, while life expectancy has risen.

In this fast-changing environment, investors are re-examining the appropriate investment policy to match future liabilities. Some commentators question the appropriateness of having any equity exposure within defined-benefit pension schemes. In early 2003, the Boots pension scheme switched a predominantly equity portfolio entirely into fixed income assets. Other investors – both life and pension funds – have actively reduced equity exposure, albeit in a less dramatic fashion.

Much of this debate has focused simplistically on equities and fixed income investments. But what about other asset classes that do not fall into these neat categories? This paper explores the extent to which UK commercial property can play a part in a multi-asset portfolio to match liabilities.

Previous applications to property

Previous work on the role of property in investment portfolios has tended to focus on assets only. In introducing liabilities, we explore the extent to which UK commercial property could play a part in matching UK pension scheme liabilities. Such a topic appears worthy of investigation because commercial property exhibits both fixed income and equity characteristics: rents contracted under leases are rather like the coupons from a corporate bond, and rental values can rise either through inflationary pressures or real economic growth, providing equity-type qualities.

Previous work was undertaken seeking to apply measures of duration to property, which is particularly relevant in the light of the reduction in the length of UK commercial property leases. Although a useful contribution, this had not extended to a comprehensive review of property's liability-matching qualities.

Framework

In seeking to understand the investment choices faced by the typical pension scheme, we aim to model the key dynamics of the scheme, particularly prospective fund solvency. This process involves building a model of the major asset classes – equities, bonds and property – and their key characteristics. We also need to build a simple model of the liabilities, the main features of which have been outlined above. The key insights from the modelling process arise from considering both assets and liabilities jointly and in understanding how the two sides of the balance sheet interact. Although the dynamics of any individual scheme are extremely complex, some powerful observations can be made by using a simple model.

The key inputs to building a model of the asset classes are the expected returns, the associated risks (as measured by the standard deviation of returns) and the relationship between these returns (the correlations). In assessing these inputs, we should be mindful of history but also bear in mind that historic patterns tend to be extremely unstable through time. Essentially, we need a forward-looking perspective that takes into account views of current market pricing and future equilibrium levels. In making such assessments, we also consider the views of fund managers and any market information on consensus views.

While there is no right answer to such assumptions, we feel that these figures are intuitively reasonable. Equities offer the highest returns, but also the highest level of risk. Bonds (measured here as AA rated, for consistency with FRS17) have lower returns, but less uncertainty. Property sits somewhere between the two, with returns closer to equity levels. Property's risk is consistent with the results had historic indices been 'unsmoothed' to overcome problems associated with serial correlation. A key feature of the correlation structure is the low correlations between property and the equity and bond asset classes. The equity/bond correlation is set at average levels through history. Overall, these aim to be starting assumptions that are used for illustration in our modelling.

Two further areas of work were explored in our paper. The first sought to segment the future cash flows generated by property into its fixed income and equity components. The second explored the extent to which the different cash flows might be separated.

Key findings

Modelling risk and return

The accounting standard, FRS17, which requires pension fund liabilities to be valued using AA bond yields as the discount rate, looks to be a more favourable regime for property allocations compared to the minimum funding requirement (MFR). Efficient portfolios do contain low levels of property at very low levels of risk tolerance but as risk levels increase, so do property allocations. Whereas the MFR portfolios favoured equities over property as risk levels increased, under FRS17 there is a more even playing field for property. As the typical pension fund asset mix migrates towards the new efficient frontier there appears to be scope for more property investment, except at very low levels of risk tolerance.

Consensus asset risk and return assumptions were adopted in the analysis. Alternative assumptions were then used to test the sensitivity of the results. Using lower levels of volatility for property, not surprisingly, raises its attractiveness for low risk funds. Assuming lower correlations with equities and bonds, however, reduces some of these gains.

While FRS17 may not be the sole criterion that determines asset allocation, the analysis has highlighted the potential impact of moving towards bond-based liability matching, which is a more general trend facing the investment community.

So far as FRS17 is concerned, we conclude that the accounting standard should create some opportunities for property as an asset class. Our assumptions for returns, risks and correlations provided a starting point for modelling. Relaxing these inputs has highlighted the importance of both property's expected volatility and its correlation with bonds. The degree to which properties exhibit bond-type characteristics will clearly influence expected volatility and correlations.

Segmenting property cashflows

The prospective flow of income from a property (or a portfolio) can be divided into three components:

1. Payments contracted under the current lease – effectively a bond with the tenant's covenant as security.
2. Increases in income under the current lease – often, where adjustments are upward only, akin to a call option on rents.
3. Future income after the end of the current lease – the equity component.

The proportion held in each component varies across different types of property and through time. In today's low interest/low inflation environment, the bulk of the value in a typical portfolio is concentrated in the first element. Investors can of course choose to construct a portfolio that maximises the bond-like component (or indeed the equity-like characteristics) by selecting an appropriately structured portfolio of assets.

Separation issues

It is worthwhile considering whether the cash flows can actually be physically and financially separated to the extent where they could be separately traded. This would, for example, make the bond-like element directly comparable in pricing terms with the tenant's corporate bond(s).

There are a number of relevant examples in the financial markets:

- Gilt stripes, launched in 1996, provide investors with the ability to hold an asset that meets a liability maturing on a specific date or series of dates.
- Collateralised debt obligations (CDOs), pool a number of separate debt instruments and by subordination and tranching, create new ones with different credit risk characteristics.
- Credit derivatives provide protection against default on individual or pools of credit and can themselves roll into CDO structures.

There are isolated examples of similar techniques being applied to property markets. One is the use of residual value insurance techniques to provide a guaranteed floor to the value of the equity component – this is similar in many ways to a credit derivative product. And securitisation of cash flows from property portfolios has been successfully achieved.

Careful consideration also needs to be given to some of the practical issues around separation. Securitisation techniques rely on the ability to ring-fence the relevant cashflows. Such approaches might enable pension funds to use property to match better their liabilities.

Conclusions

Commercial property generally represents a small proportion of typical pension fund portfolios. Since the 1980s, the asset class has been largely overlooked in preference to equities despite the fact that it has significantly out-performed UK equities and bonds over the last decade.

Such a position appears anomalous. While property has obvious and well-documented disadvantages, it also offers investors the benefits of a higher running yield, the potential to deliver attractive total returns and strong diversification qualities. Over the last 20 years, the bond-like characteristics of property have grown. This is attributable to the shift to a low interest/low inflation environment. More recently, this trend has coincided with pension funds and other long-term investors moving out of equities and into bonds. In our view, the benefits of property investment and the changing characteristics of the asset class have not been fully appreciated.

One explanation for the approach to property is that it was poorly understood by those taking asset allocation decisions. It is hoped that this paper has gone some way to enhance the understanding of property as an asset class, particularly in the context of helping to match liabilities.

Small business tenant legislation in Australia

Neil Crosby, University of Reading

Neil Crosby asks if we can learn anything for our own lease code reform debate from current Australian legislation. This research was funded by the IPF Educational Trust and the RICS Education Trust. The full report is available on www.reading.ac.uk/rep/researchreports.html

Commercial lease reform has been on the UK government agenda since 1992 following the commercial property crash of 1990. Currently, major government concerns are subletting constraints, upwards-only rent reviews and the awareness and protection of small business tenants (SBT). The SBT agenda was a product of our first University of Reading Lease Code monitoring report for government (Crosby et al, 2000) where we highlighted the lack of dissemination of the Code in general but to this group in particular. We delved deeper into this issue in our second Code monitoring report (Crosby et al, 2005) and found that very small tenants with fewer than five employees were less likely to be professionally represented than larger tenants. Where they took professional advice it was mainly from solicitors late in the transaction. They were more likely to be first time lessees, more likely to take the first lease on offer and a significant number of landlords' agents suggested SBTs generally did not get the best terms that could be negotiated.

In Australia, there was a different catalyst for government interest in the plight of SBTs. In the 1970s the growth of retailing within major shopping centres centralised retail property ownership within a few major developer/investors and SBTs operating shops in these centres began to complain of a misuse of power by these owners. There is no statutory right to a new lease and shopping centre managers were charged with aggressive treatment of tenants at renewal negotiations, failure to disclose all charges before the lease was signed, obliging small shopkeepers to pay for inappropriate items in service charges, complete refits at renewal, design fees for the fit out and, where major anchor stores refused to pay for certain items in service charges, these were spread around the remaining tenants.

As the issue was raised in Australia earlier than in the UK, albeit in the context of retail tenancies only, they have had a longer period to attempt different solutions to any perceived problems. This paper outlines the findings of a research project examining the Australian experience. It was funded via a travel grant from the Education Trusts of the Investment Property Forum and the Royal Institution of Chartered Surveyors.

Responsibility for tenancy matters in Australia lies with the eight states or territories of the Commonwealth (Federation) of Australia. Calls for intervention in the 1980s were answered in a number of states by retail tenancy legislation, commencing in Queensland in 1984, Western Australia in 1985 and Victoria in 1986. Now all states and territories have legislation or a mandatory code. Table 1 sets out the current legislation in each state.

The aim of the research is to examine perceptions of the effectiveness of this legislation in Australia and to provide a preliminary evaluation of its potential use in the UK. The research was undertaken during the first half of 2006 and consisted of a major review of the literature concerning the development of lease legislation in Australia since the 1980s. As the legislation is state based, a case study of Victoria was used supplemented by a brief overview of legislation in the other states. During March and April 2006, the issues were developed within a set of semi-structured interviews with government officials, property professionals and representatives of landlords and tenants. In total 28 individual interviews were carried out with 36 interviewees.

Table 1: Australian State/Territory current legislation

State	Name of Act	Date of commencement	Last amended
Australian Capital Territory (ACT)	Leases (Commercial and Retail) Act 2001	1st July 2002	4th March 2003
New South Wales (NSW)	Retail Leases Act 1994	1st August 1994	1st January 2006
Northern Territory (NT)	Business Tenancies (Fair Dealings) Act 2003	1st July 2004	
Queensland (QLD)	Retail Shop Leases Act 1994	28th October 1994	3rd April 2006
South Australia (SA)	April 3rd Commercial Leases Act 1995	30th June 1995	6th December 2001
Tasmania (TAS)	Fair Trading (Code of Practice for Retail Tenancies) Regulations 1998	Fair Trading 1998	
Victoria (VIC)	Retail Leases Act 2003	1st May 2003	1st May 2005
Western Australia (WA)	Commercial Tenancy (Retail Shops) Agreements Act 1985 incorporating the Commercial Tenancy (Retail Shops) Agreements Amendment Act 1998	1st September 1985 1st July 1999	28th June 2001 Presently under further review

Sources: Compiled from primarily Philips Fox (2004), Clayton Utz (2005), Minter Ellison (2006)

Table 2: Major issues covered by the retail leases legislation

Major category or issue	Issues within category
Premises or tenants within the Acts	Definition of premises Definition of tenants Definition of who or what are not included
Provision of information during and after negotiations	Provision of draft leases and other information Disclosure statements by landlords and tenants Termination rights from failures to deliver information and disclosure statements Notification/registration of leases
Terms of the lease	Implied terms Regulation of actual terms such as rent review, outgoings, sinking funds, assignment, subletting, minimum term, refurbishment and renewal rights, where they exist
Dispute resolution	Role of Courts Mediation systems Role of registrars and small business commissioners Valuations Confidentiality of proceedings and evidence
Unconscionable conduct	Incorporation of unconscionable conduct into retail leases Lists of behaviour that might be construed unconscionable
Other issues	Key money, compensation to tenants, trading hours, security deposits, personal guarantees, land and sales tax provisions, payment of rent during fit out, management fees, advertising and promotion

The Australian legislation

Table 2 sets out the major issues covered by the legislation. Over the years, each state's legislation has developed with one eye on the other states so there are a significant number of common themes.

The main topics that have some relevance to the UK SBT awareness and protection issue are the legislative approach, the scope of the legislation, the information provision and the role of the lease commissioners/registrars.

Legislation or voluntary codes?

The major distinction between the Australian and UK approach is the mandatory versus the voluntary solution. Given the reliance of the UK on a voluntary solution, it is interesting to note that all states have resorted to legislation to solve their small retail business tenant issues. Only NSW dabbled in voluntary codes and it finally rejected that approach in 1994.

Most interviewees in the research expressed surprise that the UK had persevered with a voluntary solution and thought that these were not adhered to by individuals. They seemed comfortable with government intervention in the process and the debates in Australia concern the detail of the legislation rather than its existence.

The scope of the legislation

Because of the catalyst, the Australian focus is on retail but there are a number of interviewees who feel that it is now inappropriate and that all commercial tenants should be included in the legislation. Defining the scope of the legislation has been a major problem and in many states it is purely small premises legislation, as any retail unit under 1000 sq m is included. In two states (South Australia and Victoria) they use a rent criteria. The Victorian limit is so high it includes most shops in most centres. Victoria also has a criteria related to whether the tenant company is listed on the stock exchange. As the rent limit is so high, the listing criterion controls which tenants are included.

The result is that some companies are included in the Act in some states and not in others. In addition, the definition of retail is not always consistent. The concentration on indicators related to the premises rather than the tenants suggests that in many states the legislation is in fact a smaller retail premises Act rather than a SBT Act.

As indicated in Table 2, the legislation does control some of the terms that can be put into leases. There is no statutory right to renew, upwards only rent reviews are banned, and many other terms are either prescribed or not allowed. The legislation in all states prescribes a minimum term of five years, although in Victoria it is possible to agree with the lease commissioner a reduced term.

Assignment cannot be unreasonably withheld. Before the 2003 Act in Victoria, subletting was similar to assignment in that an absolute right to refuse was not allowed but landlords were given the right to refuse for, it appears, no other reason than to align with some other states. It is slightly ironic that, at precisely the time flexibility in subletting, a particular concern of retailers, rose to the top of the UK commercial lease reform agenda, Victorian legislation aimed at small retail tenants reduced tenants' rights to sublet significantly.

The lack of a statutory right to renew is perhaps the most controversial aspect of the current relationship. Interviewees with a landlord bias suggested that renewal rights remove the landlord's right to manage dynamically while interviewees with a tenant bias suggested that retailers were quite capable of adapting to changing retail phases and formats and needed the right to renew to stop landlords abusing their market power at lease expiry. It would appear from Victorian government discussion papers concerning the legislation (DSRD, 2001), while accepting that there are occasions where tenants are treated badly at lease expiry, they do not feel it appropriate to constrain the landlord's right to manage. It would also appear that the majority of other state governments agree judging by the lack of renewal rights in their legislation.

Information and disclosure

Perhaps the most relevant parts of the legislation for the UK policy debate are the provisions concerning information to tenants at the commencement of negotiations and a detailed disclosure statement just before the lease is signed.

The information required in Victoria at the commencement of negotiations is a draft copy of the lease plus the provision of an information brochure published by the Small Business Commissioner (SBC). There are penalties for non-compliance. Interviewees for the research, particularly lawyers, were convinced that SBTs read the information and are either more informed or, more often, seriously worried by it and seek professional advice earlier than they would in the absence of the information.

The second element of information is disclosure. In Victoria, the disclosure statement must be given to the tenant at least seven days before the lease is signed and includes all financial items including service charges and any prospective issues that might disrupt the tenant during the lease, for example, a planned refurbishment. In some states the tenant must also give a disclosure statement but often this is purely a declaration that they have received the landlord's statement and have read it. In the past, tenant's disclosure included a business plan and a number of interviewees thought that this discipline helped new tenants plan their business leading to lower failure rates.

The role of lease registrars/commissioners

The annual report of the Small Business Commissioner (SBC, 2005) sets out the activities of the office of the SBC including a number of illustrative cases relating to his three major roles of education, investigation of non-compliances with the Act and dispute resolution. The enforcement procedures have been used lightly by the SBC as, in most cases, the non-compliance has been out of ignorance rather than attempts to mislead or circumnavigate the Acts. One of the more powerful and influential tools concerning the compliance issue is unconscionable conduct incorporated from Fair Trading legislation. Unconscionable conduct is where one party has taken advantage of its superior market power in negotiations, although case precedent suggests it is difficult to successfully bring an action. It is still an interesting concept not fully investigated in this research but worthy of further consideration in a wider context than just commercial leases as interviewees suggested that landlords were nervous of contravening these provisions.

Interviewees were highly complimentary about the use of mediation organised by the SBC in Victoria. All disputes are referred to the SBC before they are able to be entered into court and around 75% of cases are settled at, or before, mediation.

The service is subsidised heavily by the state government so that the parties pay their own costs and they are charged only $95 (around £40) each for the mediation. Mediators are paid $590 and an average mediation takes three to four hours.

Policy implications for the UK

If the UK government was to consider partial legislation for SBTs, there is no reason to restrict it to retail tenants, as in Australia. Many of the interviewees considered that all SBTs could benefit from information, disclosure and access to lease commissioners. However, the study of Australia identifies the difficulties of implementing legislation across part of the market; defining the scope of the Act has caused numerous difficulties over the past 20 years and there is nothing to suggest that it would be any easier to implement in the UK if partial legislation were considered.

Overall, it is plain that some of the themes of lease legislation in Australia address the same issues of small tenant awareness that exist in the UK. Given the failure of the property industry in the UK to voluntarily ensure proper dissemination of the two Lease Codes, the perceived increased awareness of Australian SBTs due to the information and disclosure provisions and the use of lease registrars or commissioners to administer education, compliance and dispute resolution provide ideas for solving similar issues in the UK. This could be tied to mandatory dissemination of the Code and draft leases available at the opening of negotiations. However, implementation of the full Australian legislation may be perceived as using a sledgehammer to crack a nut.

There is one other interesting side issue for the UK lease reform debate. Upwards-only reviews are banned by all of the legislation and interviewees reported that immediately this took effect landlords reverted from market rent based rent determination at review to alternative rent review provisions such as index linking and fixed uplifts. This may be a sign of the UK reaction to any ban on upwards only.

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The full report can be obtained free from the University of Reading website www.rdg.ac.uk/rep/ausleaserpt.pdf and www.rdg.ac.uk/rep/ausleaseapp.pdf.

New member list

Surname	Forename	Title	Company	Joined
Aggarwal	Vikram	Mr	HSBC Bank PLC	22/2/06
Anderson	Stuart	Mr	Jones Lang LaSalle	24/1/06
Archer	Derek	Mr	Ryden LLP	6/12/05
Atcherley-Symes	David	Mr	White Rock Properties	19/9/06
Baggaley	Jason	Mr	Standard Life Investments Ltd	1/2/06
Ball	Asli	Ms	GIC	19/6/06
Ball	Ian	Mr	The Royal Bank of Scotland	20/6/06
Balson	Clifford	Mr	Nationwide Building Society	28/3/06
Bannerman	Joanna	Ms	Bank of Scotland	1/8/06
Barker	Mark	Mr	Cobbetts LLP	1/8/06
Basten	Philip	Mr	The Co-operative Bank PLC	19/7/06
Beer	Charles	Mr	KPMG LLP	14/4/06
Benedict	Adrian	Mr	KPMG LLP	13/4/06
Benjamin	William	Mr	Apollo Real Estate Advisors	3/8/06
Benzecry	Edward	Mr	CMS Cameron McKenna LLP	9/2/06
Birkett-Jones	Jeremy	Mr	Hunter Property Fund Management Ltd	5/4/06
Bjorkegren	Susan	Mrs	F&C Property Asset Management PLC	29/11/05
Bland	Simon	Mr	Mason Owen	11/1/06
Bond	Shaun	Dr	The University of Cambridge	14/11/05
Bowers	Alan	Mr	Yorkshire Bank	22/8/06
Bowie	Jackie	Mrs	JC Rathbone Associates	19/1/06
Bramley-Jackson	Stephen	Mr	Credit Suisse	9/11/05
Brown	Seth	Mr		11/1/06
Browne	Paul	Mr	The British Retail Consortium	3/10/05
Bruce	Alexander	Mr	Knight Frank LLP	19/7/06
Bruce	Christian	Mr	Redpath Bruce	3/11/05
Bryant	Simon	Mr	Henderson Global Investors	24/11/05
Brydie	Chris	Mr		10/1/06
Burnett	Ross	Mr	Montagu Evans LLP	28/2/06
Busaidy	Akram	Mr	UBS AG	12/7/06
Byrne	Peter	Prof.	The University of Reading	8/11/05
Caldwell	Elliot	Mr	ING Real Estate Investment Management Ltd	18/4/06
Caplan	Steven	Mr	Collins Stewart Property Fund Management Ltd	31/10/05
Carpenter	Andrea	Ms	ULI Europe	16/5/06
Cassels	Elliot	Mr	Montagu Evans LLP	23/8/06
Casson	Caroline	Mrs	The Royal Bank of Scotland PLC	29/11/05
Chalcraft	Stephen	Mr	Pannone & Partners	14/8/06
Channing	Michael	Mr		15/12/05
Charlwood	Ralph	Mr	Capmark Investments LP	15/11/05
Chase	Martyn	Mr	Donaldsons LLP	1/3/06
Chegwidden	Neil	Mr	Cluttons LLP	10/1/06
Chin	Henry	Dr	RREEF/Deutsche Bank Real Estate	18/5/06
Clarke	Stewart	Mr	Standard Life Investments Ltd	11/5/06
Clements	Gordon	Mr	Bank of Scotland	20/9/06
Cole	Andrew	Mr	Edwin Hill	12/9/06
Collier	Purdey	Ms	ICAP PLC	26/3/06
Cooke	Gregory	Mr	Atisreal	19/1/06
Crew	Jonathan	Mr	Cobbetts LLP	12/9/06
Crowe	Charles	Mr	UBS Global Asset Management (UK) Ltd	18/5/06
Csizmadia	John	Mr	Barclays Capital	26/7/06
Cullen	Nicholas	Mr		9/2/06
Davidson	David	Mr	Cushman & Wakefield	12/9/06
Davidson	Kelvin	Mr	Capital Economics Ltd	6/7/06
Denton	Peter	Mr	Eurohypo AG	13/12/05
Dericks	Gerard	Mr		13/4/06
Devine	Paul	Mr	AWG Property Ltd	29/3/06
Digby	Philip	Mr	GVA Grimley LLP	14/8/06
Dilkes	Paul	Mr	HSBC Bank PLC	6/10/05
Dilley	John	Mr	Willis UK & Ireland	18/5/06
Dillon	Paula	Ms	Addleshaw Goddard	22/8/06
Dixit	Mina	Miss		13/4/06
Dixon-Brown	Olga	Miss	The Royal Bank of Scotland	22/8/06
Dodds	John	Mr	St Modwen Properties PLC	19/7/06
Dong	William	Mr	ING Real Estate Investment Management (UK) Ltd	29/3/06
Douglas	Kevin	Mr	Inverthorn Capital Ltd	13/7/06
Downer	Jonathan	Mr	KPMG LLP	17/5/06
Drewett	Simon	Mr	Kingfisher Property Finance Ltd	8/2/06
Dunn	Andrew	Mr	Cobbetts LLP	11/5/06
Eagan	Mark	Mr	Paul Hastings	3/1/06
Eddy	Simon	Mr	GVA Grimley	8/2/06
Egan	Fergus	Mr	Legal & General	21/9/06
Ellis	Jeff	Mr	Lewis Ellis	26/10/05
Ellis	Mark	Mr	MSS Real Estate LLP	1/8/06
Erwin	David	Mr	Cushman & Wakefield	5/4/06
Evans	Alasdair	Mr	Hermes Real Estate Investment Management Ltd	6/2/06
Evans	Stephen	Mr	Bank of Scotland	10/1/06
Farnsworth	Rebecca	Mrs	Atisreal	2/8/06
Farrell	Francis	Mr		20/9/06
Felce	Julia	Ms	Schroder Property Investment Management Ltd	17/11/05
Fenn-Smith	Edward	Mr	Protego Real Estate Investors LLP	14/11/05
Fish	Sally	Ms	Property Investment Holdings	6/10/05
Fisher	Barry	Mr	The Wood Glaister Partnership	2/10/06
Floydd	Maxwell	Mr	Saffery Champness	18/5/06
Fok	Lai	Ms		10/1/06
Forshaw	Paul	Mr	CB Richard Ellis Ltd	6/7/06
Furlong	Gwynne	Mr	Close Brothers Investment Ltd	6/7/06
Gardner	Alan	Mr	Gerald Eve	24/11/05
Geddes	Crawford	Mr	Keiller Property Trading	12/9/06
Gibbs	Gareth	Mr	Colliers CRE	26/7/06
Gilchrist	Emma	Ms	Royal London Asset Management Ltd	6/12/05
Gillbanks	Jeffrey	Mr	Brabners Chaffe Street LLP	2/8/06
Golby	Stephen	Mr	Golby Aboyne	5/4/06
Golovkin	Gregory	Mr		23/1/06
Grahame	Steven	Mr	Watson Wyatt Ltd	20/2/06
Grilli	Maurizio	Mr	Cordea Savills LLP	29/11/05
Hallam	Martin	Mr	DLA Piper UK LLP	2/8/06
Hanlon	Patrick	Mr	Handelsbanken	29/9/06
Hanna	Neive	Miss	The Wellcome Trust	9/2/06
Hanrahan	David	Mr	Hanrahan Deane	5/4/06
Harris	Robert	Mr	The Royal Bank of Scotland	3/8/06
Heggie	Richard	Mr	Investec	1/8/06
Hendry	Steven	Mr	Ryden LLP	25/8/06
Henry	David	Mr	Davis Langdon Crosher & James LLP	13/4/06
Herring	Stephen	Mr	BDO Stoy Hayward LLP	3/1/06
Higginson	Joseph	Mr	Brookhouse	22/8/06
Hill	Matthew	Mr	MSS Real Estate LLP	1/8/06
Hobson	Darren	Mr	Deloitte	13/2/06
Hodges	Robert	Mr	The Carlyle Group	15/12/05
Hoffbrand	Andrew	Mr	Harmer Ray Hoffbrand	6/12/05
Hogge	Andrew	Mr	Cyril Leonard	23/1/06
Hollies	Ruth	Ms	Grosvenor	5/10/05
Horwood	Christopher	Mr		10/1/06
Horwood	Daniel	Mr	KBC Peel Hunt Ltd	14/12/05
Hudson	Ashley	Mr	Knight Frank LLP	31/10/05
Hugill	Paul	Mr	PMH Achievers International Ltd	28/10/05
Humphries	Colin	Mr	Aareal Bank AG	18/5/06
Hutchison	Norman	Prof.	The University of Aberdeen	10/11/05
Innes	Stephen	Mr	Lambert Innes	5/4/06
Jackson	Catherine	Dr	Cass Business School	29/11/05
Jackson	Hugo	Mr	Stainton International Ltd	23/1/06
Jackson	Patrick	Mr	Pivot Group	14/2/06
Jeyarajah	Andrew	Mr	Tullett Prebon DTZ	29/11/05
Jones	Edward	Mr	Lambert Smith Hampton	17/10/05
Jones	Geraint	Mr	BDO Stoy Hayward LLP	6/10/05
Jones	Richard	Mr	Morley Fund Management Ltd	17/11/05
Kasch	Peter	Mr	Catalyst Capital LLP	20/10/05
Kattan	Ramzi	Mr	Trammell Crow Company	11/5/06
Katz	Rhoda	Ms	Katz PR	14/12/05
Kauntze	Richard	Mr	British Council for Offices	20/7/06
Kauschmann	Jochen	Mr	Angermann Goddard & Lloyd	17/1/06
Kemp	Caroline	Ms	KPMG LLP	13/4/06
Kershaw	Christian	Mr	Gerald Eve	14/8/06
Kinsey	Stephen	Mr	Cobbetts LLP	5/4/06

Surname	Forename	Title	Company	Joined
Kirby	Shaun	Mr	KPMG LLP	13/4/06
Kopitko	Ashley	Mr	Speechly Bircham	5/7/06
Krystalogianni	Alex	Dr	Schroder Property Investment Management Ltd	8/12/05
Lersch	Stanley	Mr	Mutual Finance Ltd	21/8/06
Leslie-Melville	James	Mr	Bank of Scotland	13/7/06
Levi	Michael	Mr	GFI Group	29/11/05
Leviten	David	Mr	Pannone LLP	31/7/06
Liu	Lina	Miss		13/4/06
Lomax	Ben	Mr	Mapeley Estates Ltd	17/1/06
Lord	Hannah	Miss	CBRE Investors	21/8/06
Lovelady	Andrew	Mr	Ethel Austin Property Group	19/7/06
Lunn	Philip	Mr	Lunn Ventures Group/ Luga Properties	25/7/06
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Marsh	Jeremy	Mr	Invista Real Estate Management Ltd	29/11/05
Marshall	Andrew	Mr	KPMG LLP	13/4/06
Marshall	Lee	Mr	CBRE Investors	24/11/05
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Martin	Robin	Mr	Legal & General Property Ltd	12/12/05
McKenna	Kevin	Mr		11/1/06
McNamara	Gary	Mr	DTZ Debenham Tie Leung	1/8/06
McRae	Ian	Mr	Chadwick McRae	20/6/06
Milanian	Negar	Mr		13/4/06
Miller	James	Mr	CMS Cameron McKenna LLP	7/2/06
Mo	Ran	Mr		13/4/06
Montgomery	Murdo	Mr	Credit Suisse	2/2/06
Moss	Duncan	Mr	Skelton Group Ltd	8/2/06
Mouzakis	Fotis	Dr	Cass Business School	17/11/05
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Ney	Derek	Mr	Morgan Stanley	16/11/05
Nicholson	James	Mr	Pochins PLC	12/9/06
Nolan	Ged	Mr	Lloyds TSB Group PLC	17/1/06
Oliver	Alun	Mr	E3 Consulting Ltd	9/1/06
Orchard-Lisle	Paul	Mr		29/11/05
O'Roarty	Brenna	Dr	RREEF Ltd	10/11/05
Orr	Stuart	Mr	CB Richard Ellis Ltd	29/11/05
Padmakumar	Revathi	Miss	KPMG LLP	13/4/06
Palmer	May	Miss		17/1/06
Panther	Teresa	Miss	Bevan Brittan LLP	29/9/06
Papaconstantinou	Nicolas	Mr		18/4/06
Paterson	Ewan	Mr	Conroy Laurie	7/2/06
Patterson	Paul	Mr	three60 Property Investors Ltd	14/8/06
Perkins	Marcus	Mr	Dunlop Haywards Millar Kitching	3/1/06
Pettifor	Richard	Mr	HBJ Gateley Wareing LLP	19/7/06
Phelan	Mark	Mr	Kilmartin Property Group	23/5/06
Pieroni	Christopher	Dr	KPMG LLP	5/4/06
Pink	Nicholas	Mr	Protego Real Estate Investors LLP	14/11/05
Pollard	Carl	Mr	Equity Trust	6/7/06
Pollock	James	Mr	Knight Frank LLP	20/7/06
Preston	Mark	Mr	Grosvenor	13/7/06
Price	Andrew	Mr	King Sturge LLP	10/1/06
Qian	Beibei	Miss		18/4/06
Radford	Andrew	Mr	Henry Davidson Developments Ltd	22/8/06
Rawlinson	Grant	Mr	Kenmore Property Group	20/2/06
Reilly	Peter	Mr	JP Morgan	10/1/06
Rickard	Louisa	Ms	Atisreal	7/11/05
Riley	Andrew	Mr	BCM Chartered Surveyors	3/1/06
Roberts	Nigel	Mr	Jones Lang LaSalle	12/12/05
Robinson	Simon	Mr	GBR Property Consultants Ltd	8/11/05
Robson	Stephen	Mr	Kaupthing Singer & Friedlander	19/7/06
Roger	Jeremy	Mr	HP Four LLP	13/7/06

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Ross	Stephen	Mr	Trident Trust Company Ltd	13/2/06
Rothnie	Iain	Mr	Herbert Smith LLP	12/9/06
Rouse	Gary	Mr	BDO Stoy Hayward LLP	28/3/06
Russell	Simon	Mr	Atisreal	23/8/06
Ryall	Matthew	Mr	BlackRock	29/11/05
Sale	Kevin	Mr	Norwich Union	5/4/06
Salisbury	David	Mr	Bank of Scotland	19/7/06
Sander	Antony	Mr	UBS Global Asset Management (UK) Ltd	25/5/06
Saunders	Chris	Mr	DTZ Investment Management	18/4/06
Scofield	David	Mr	The University of Sheffield	29/3/06
Scott	David	Mr	King Sturge LLP	22/8/06
Seaton	Alistair	Mr	LaSalle Investment Management	8/11/05
Sharman	Jennie	Miss	Orchard Street Investment Management LLP	6/12/05
Shaw	Dawn	Ms	Hunter Property Fund Management Ltd	14/11/05
Sheldon	David	Mr	Anglo Irish Bank Corp. PLC	8/3/06
Sheridan	Stewart	Mr	Culverwell	17/1/06
Sherlock	Aaron	Mr		24/8/06
Simpson	Ray	Mr	Hammonds	28/6/06
Sinclair	Chris	Mr	Innes England	12/9/06
Singer	Neil	Mr	Singer Vielle	15/12/05
Slade	Michael	Mr	Helical Bar PLC	12/12/05
Smith	Andy	Mr	Co-operative Bank	11/10/05
Stevenson	Paul	Mr	Savills	1/2/06
Stewart	Kirsty	Ms	Knight Frank LLP	11/5/06
Stratton	Stephen	Mr	Manches LLP	21/9/06
Sullivan	Patrick	Mr	Bank of Ireland	31/10/05
Summersgill	Andrew	Mr	King Sturge LLP	12/9/06
Sumner	Patrick	Mr	Henderson Global Investors	28/10/05
Syn	Suleen	Ms	Investment Property Forum	8/3/06
Taylor	Andrew	Mr		15/12/05
Telford	Roger	Mr	Miller Group	13/7/06
Ternisien	Laurent	Mr	Investment Property Databank	5/1/06
Terry	Nicholas	Mr		17/5/06
Thompson	Bruce	Mr	Dorrington Investments PLC	14/4/06
Thrower	Rachel	Miss	Lewis Ellis	26/10/05
Topintzi	Ermina	Dr	RREEF/Deutsche Bank Real Estate	20/6/06
Torrance	Laura	Ms	Halogen	18/5/06
Utley	Christopher	Mr	GVA Grimley	16/11/05
van Doorn	Lisette	Ms	INREV	8/11/05
Vernon	Peter	Mr	Grosvenor	12/9/06
Walden	Jeremy	Mr	Herbert Smith LLP	17/5/06
Walker	John	Mr	JC Rathbone Associates Limited	5/4/06
Wallace	Katie	Ms	The Royal Bank of Scotland PLC	28/2/06
Waple	Richard	Mr	Property Investment Holdings	6/10/05
Ward	Christopher	Mr	Land Securities PLC	17/1/06
Wattie	Ian	Mr	Burness	13/12/05
Weeks	Charles	Mr	Protego Real Estate Investors LLP	8/11/05
Wells	Guy	Mr	Cass Business School	3/1/06
Westlake	Clara	Ms	Legal & General Investment	14/2/06
Wharton	Jason	Mr	Network Rail	23/1/06
Whitelaw	Colin	Mr	Property Investor Partnerships	15/6/06
Whiteman	Hamish	Mr	HP Four LLP	13/7/06
Widdowson	Steve	Mr	Magnus Ltd	1/8/06
Williamson	Alex	Mr	Schroder Property Investment Management Ltd	23/8/06
Wilson	Colin	Mr	DTZ Debenham Tie Leung	28/3/06
Windsor	Robert	Mr		13/4/06
Winfield	Jane	Ms	NAI Fuller Peiser	16/11/05
Wood	Simon	Mr	DGi Davis George	2/8/06
Woolhouse	Roger	Mr	Hill Woolhouse	3/1/06
Woolhouse	Thomas	Mr	Lewis Ellis	26/10/05
Woollam	Charles	Mr	Donaldsons LLP	12/7/06
Worthington	Rebecca	Mrs	Quintain Estates & Development PLC	17/1/06
Yates	Gillian	Ms	BDO Stoy Hayward LLP	28/3/06

Property stock selection: A little more information?

Pat McAllister, University of Reading

Pat McAllister reports on research funded by the IPF Educational Trust, conducted in conjunction with the University of Reading. The full report is available on www.ipf.org.uk

For property fund management organisations, assets have to be found, evaluated, priced and, hopefully, acquired. Each of these tasks requires a whole range of hard and soft information and/or access to information networks. In large organisations no individual can perform all the required functions and generate all the necessary information. Choosing which assets to buy can involve a whole range of individuals. Each of these will have different areas of expertise, levels of knowledge, influence and motivating factors.

Figure 1 provides a simplified representation of the key events in the process. The fund's problem is to make sure that these individuals are acting in the interests of the fund rather than in their own interest. In business, costs associated with misaligned incentives are common and are labelled as agency costs – not to be confused with the fees that investors pay to selling and buying agents. A key risk is that poor reward and organisational structures and the biases or preferences of key individuals may lead to the acquisition of underperforming assets.

The study investigated how participants in the stock buying process – and the property industry itself – organise themselves and manage their relationships to achieve their investment objectives. Specifically, the focus of the research was on the buying procedures and decisions of major UK property investing institutions and the sourcing and management of information within the buying process.

In order to examine some of the issues involved, we interviewed 11 buying organisations and a small number of introductory agents. The study's key findings on the buying process and decision-making relate to:

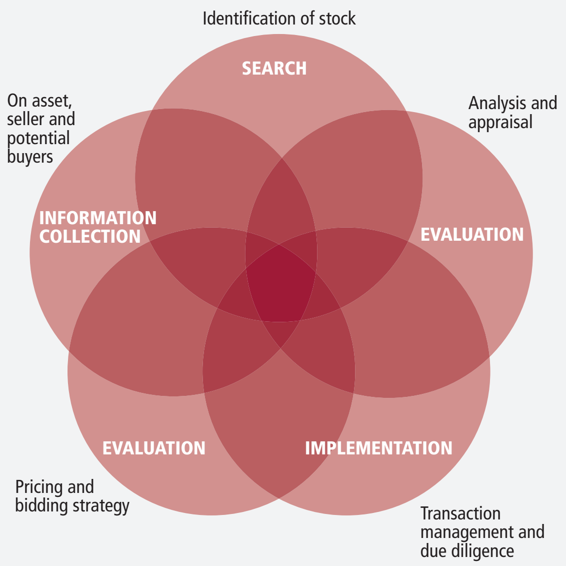
- Organisational structures, incentives and remuneration
- Information and its management
- The role of introductory agents and agency costs

Organisational structures and remuneration

It is clear that the property investment industry is much more complex than it was a decade ago, with changes such as the growth in external mandates in traditional insurance and pension funds, the expansion of private property vehicles and retail funds and the growth of specialist fund management businesses. As a result, there is increased diversity in the organisational structures both within and between organisations. Having said that, there are some clear overarching similarities in how they arrange themselves:

- Like many other large commercial organisations, property fund management firms look like the buying centres that we find in the academic literature on marketing. These are basic decision-making units comprising many players with various roles.
- To control operational risks associated with poor asset selection, team working and joint decision-making are standard, with a broad range of informal consultation and formal approval procedures in place.
- Fund managers play a pivotal role between the buyers and asset managers and more senior managers and external clients.
- Importantly, buyers are not rewarded by how much they buy but, more typically, their bonuses are linked to the performance of the organisation and their team. Contrary to some anecdotal evidence, there is little to suggest that there is widespread misalignment of asset buyers' incentives with organisational objectives.

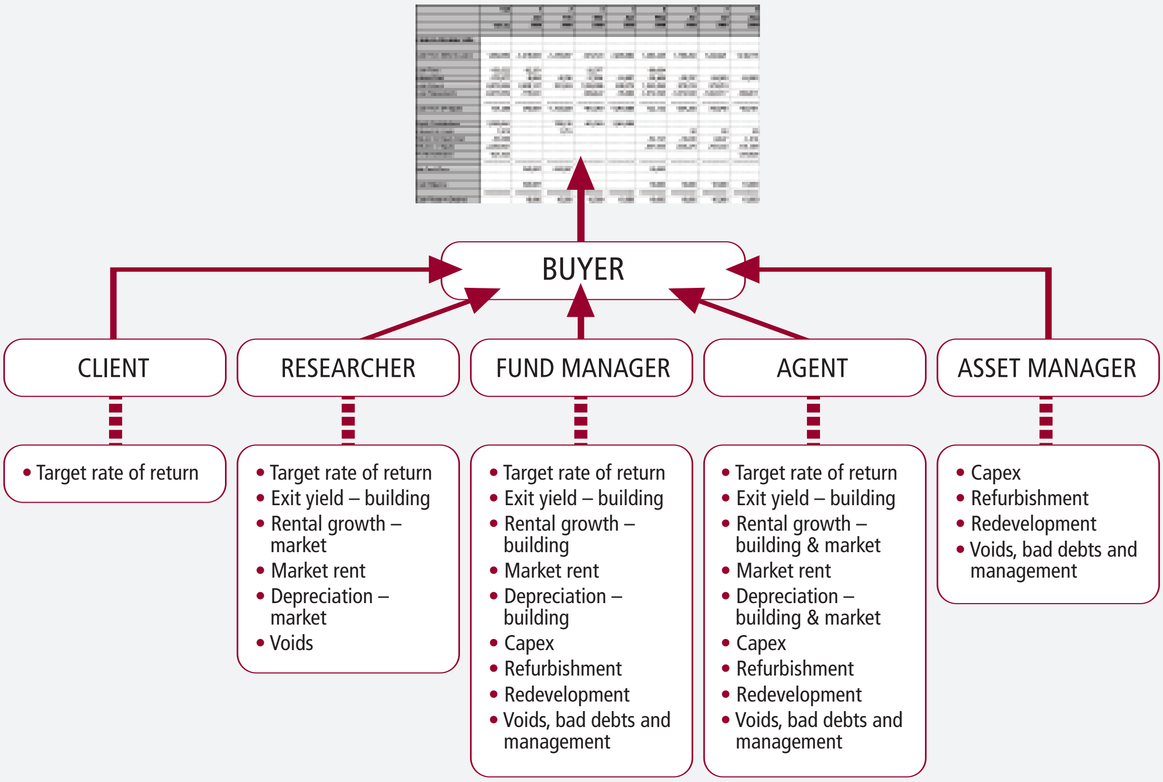
Figure 1: The asset acquisition process: The key components



Although there are a number of approaches to allocating fund management, asset management and stock acquisition responsibilities, there is a clear difference of opinion about whether to use specialist or non-specialist buyers.

- Organisations with specialist buyers stress the importance of quick responses, a focus on sourcing stock and the need for constant market intelligence.
- Organisations that combine the roles of asset management and stock acquisition stress the risk control aspects of buyers having to manage the assets that they bought. However, they also acknowledge that, in the current market, time spent on asset management is being affected by pressures to acquire stock.

Figure 2: The asset acquisition decision: The key information providers



An advantage of combining the asset management and acquisition is that it enables investment firms to be flexible and to adapt organisational structures and individual roles in response to changing circumstances. The potential downside is immediate needs prevail and longer term or less pressing issues may be neglected.

Information and decisions

The vast majority of stock offered to investors is rapidly rejected. Decisions are made on a number of bases:

- Failure to meet specific, factual requirements such as lot size, yield, lease terms.
- Knowledge drawn from analyses of previous opportunities in similar locations and/or sectors.

Where assets are taken forward to detailed evaluation invariably there is a cash flow projection for which the information inputs are generated by a range of principals and professionals. This task involves forecast of the future cash flows of the asset. The key non-factual inputs and their providers are identified in Figure 2. Typically, research and strategy personnel will generate projections of market trends and the buyer and fund manager will adapt these data at the building level. This pulls in a number of secondary forecasts of both market and building performance, adding complexity and uncertainty to the process. The crucial cash flow inputs and assumptions are adapted and scrutinised by buyers and fund managers and, in turn, further scrutinised by an investment committee and/or senior management.

There is some concern as to information inputs in a number of areas:

- Notwithstanding the IPF research into depreciation, some respondents felt that depreciation was still not being adequately incorporated into cash flows.
- There was notable variation in how target rates of return were adjusted to reflect differences in risk perceptions.

Although there is considerable scope and, indeed, a requirement for subjective adjustment to the numbers, it is difficult to see how any buyer or other individual could deviate consistently from organisational policy, given the collaborative nature of the process and the controls normally in place. Nevertheless, organisations were, and are, competing intensely for assets and there is a danger that it creates institutional pressures towards sub-optimal decisions.

Introductory agents and agency costs

There are typically two intermediaries involved in a property investment transaction. Vendors employ their own selling agents and external buying agents introduce most assets to potential buyers. Generally, buying agents then provide advice and information to support the evaluation of the asset, as well as transaction management if required.

Buyers recognise that there are incentives for the agent to provide a positive spin on the asset and to encourage the investor to offer a high price. This is because agents are only paid a fee if the asset is acquired and this fee is positively linked to the price paid – typically 1% of the acquisition price.

These incentives are counter-balanced by a number of important controls. These being that in the large fund management organisations, buyers are fully aware of these incentives, are well informed about the market themselves and are in a position to evaluate information provided by agents. In turn, agents have a strong counter-incentive to establish personal relationships and trust between themselves and buyers in order to get repeat and related business and to preserve a good reputation in the market.

Consensus Forecasts November 2006

The total return forecast is 18.1% for 2006, up from the 16.5% reported in August. The consensus for 2006 flows from yield induced capital values increases. As with the last quarter there is a marginal increase in the consensus forecast for 2007 to 7.6%. For 2008, the consensus again has reduced to a total return of 4.8% down from 5.2% forecast in August, although the rental value growth outlook for 2008 is unchanged at 3.1% growth. This weaker return outlook for 2008 reflects forecast for increases in yields. More forecasters seem to believe that yields will increase in 2008, and indeed the consensus forecast for capital values is for a decline of -0.1%. As this poor outlook for capital values is despite rental value growth, the inescapable conclusion is that yields will soften in 2008.

Over 2006-10 the consensus is slightly weaker at 8.1%, down from 8.2% pa forecast in May. This results from the stronger outlook for 2006 as the implied average total returns of about 5.2% pa in the two years 2009-10, continuing the downward trend seen throughout the year.

The demand for investment property remains very strong, with indirect funds continuing to attract large inflows of capital. Many institutional investors are increasing property weightings in their portfolios. However, the uncertainty about the outlook for property yields and capital values, could, in time, reduce the demand and weight of money overhanging the market.

Key Points

The total return forecast for 2006 has again increased, with an outlook of real property returns for the next five years.

- Total return in 2006 forecasted at 18.1%, up from 16.5% since the last survey.
- The average total return forecast is 8.1% pa for the next five years, on the back of the higher forecasts for 2006.
- Average all property rental value growth is now 3.0% pa for 2006-10 (inclusive).

There is more evidence that many forecasters expect property yields to increase during 2008, with some forecasts of yield increases in 2007.

- The total return forecast is weaker for 2008 at 4.8% and implicitly weaker for 2009 and 2010.
- Many forecasters expect capital values to be under threat in 2008, with a consensus forecast of -0.1%

London offices market recovery expected to strengthen in 2006 and 2007, with rental value growth of over 6.3% pa in West End offices and 5.1% pa in City offices for the next five years.

- For 2006, offices will be strongest sector with rental value growth of 5.6%, driven by strong markets in central London.
- Some pessimism about the 2007 and 2008 prospects for standard shops with some forecasts of falls in rental values or static rental values.
- Over the five-year period 2006-10 (inclusive), offices to show strongest rental value growth at 4.5% pa, followed by retail warehouses at 3.4% pa.
- Sub-inflation rental value growth is forecasted for standard shops, shopping centres and industrial on the five-year view.

Recovery in office returns strengthens

- Sector total return forecasts show offices as the best performing sector for 2006 with a total return of 22.4% followed by industrial at 17.1%. All sectors expected to produce double digit total returns for 2006.
- Central London offices will perform outstandingly in 2006, with West End average forecast of 28.8% driven by rising rents and falling yields.
- On the five-year view, offices remain the best performing sector at an average total return of 9.6 % pa.
- West End (11.3% pa) and City offices (10.2% pa) are expected to outperform all five of the main sectors on the five-year view.
- Stronger performance in the next year is offset by a weaker 2009 and 2010.
- The weakest sector is likely to be retail.
- All sectors will give real returns for 2006-10.

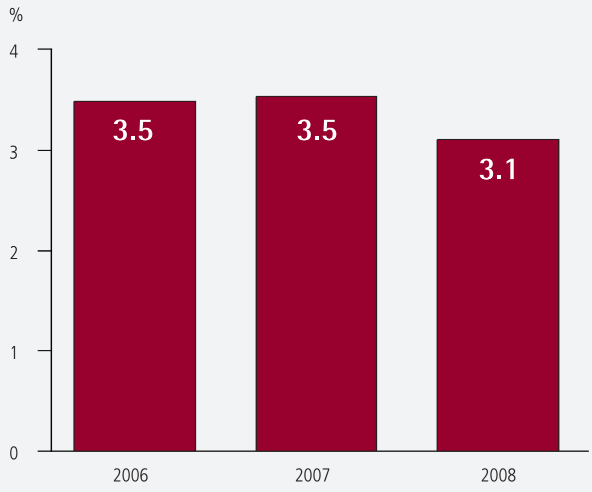
The average forecast is for 3.5% rental value growth in 2006 (Figure 1), a 0.2% increase on the August forecast of 3.3%. For 2007, the average forecast is increased to 3.5% rental value growth, up from the 3.3% forecast in August.

Thereafter, the consensus is unchanged for rental value growth of 3.1% in 2008. The annual average for the five years 2006-10 has marginally fallen back to 3.0% pa. The consensus outlook is for marginal real rental value growth for five years, when set against an inflation expectation of 2.5% pa.

The consensus for 2006 has for the fifth quarter strengthened with an average of 18.1% total return forecast, built off yield reductions.

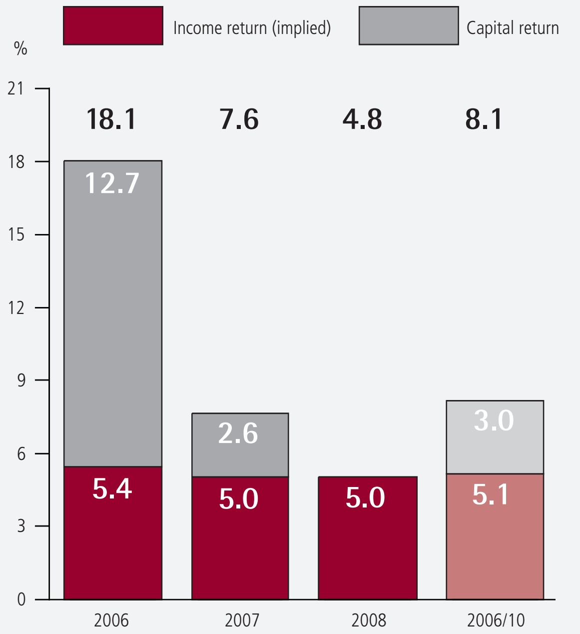
The consensus is for muted returns for 2007 and 2008, with just 7.6% and 4.8% total returns respectively. The forecast for 2008 is 0.4 percentage points lower than the forecast published in

Figure 1: Average rental growth



May. All sectors contain some forecasts of falling capital values for 2008. The consensus is that capital values will fall by -0.1% in 2008.

Figure 2: Average total returns



All Property survey results by contributor type (Forecasts in brackets are August 2006 comparisons)

Figure 3: Property advisors and research consultancies (13 contributors)

	Rental value growth %						Capital value growth %						Total return %					
	2006		2007		2008		2006		2007		2008		2006		2007		2008	
Maximum	3.9	(4.0)	4.4	(4.4)	4.4	(4.5)	14.8	(15.7)	5.0	(5.3)	2.0	(3.2)	19.9	(20.8)	9.5	(10.1)	7.5	(8.0)
Minimum	3.2	(2.8)	3.2	(2.5)	3.0	(1.8)	10.0	(8.1)	-1.6	(-1.8)	-4.9	(-4.9)	15.9	(13.6)	3.2	(3.0)	0.1	(0.2)
Range	0.7	(1.2)	1.2	(1.9)	1.4	(2.7)	4.8	(7.6)	6.6	(7.1)	6.9	(8.1)	4.0	(7.2)	6.3	(7.1)	7.4	(7.8)
Median	3.5	(3.3)	3.5	(3.4)	3.5	(3.5)	12.5	(11.2)	2.8	(2.9)	0.0	(0.1)	18.2	(16.5)	7.7	(7.9)	5.0	(5.2)
Average	**3.5**	**(3.4)**	**3.6**	**(3.5)**	**3.5**	**(3.5)**	**12.7**	**(11.6)**	**2.1**	**(2.6)**	**0.0**	**(0.2)**	**18.3**	**(17.0)**	**7.1**	**(7.6)**	**5.1**	**(5.3)**

Figure 4: Fund managers (13 contributors)

	Rental value growth %						Capital value growth %						Total return %					
	2006		2007		2008		2006		2007		2008		2006		2007		2008	
Maximum	4.0	(4.0)	4.0	(4.1)	4.5	(4.7)	16.0	(12.8)	6.3	(5.8)	4.6	(4.8)	22.0	(18.1)	11.0	(10.5)	9.0	(9.4)
Minimum	2.9	(2.0)	2.6	(1.7)	1.5	(1.5)	10.0	(8.0)	-1.0	(-1.8)	-5.0	(-3.5)	15.0	(14.0)	4.0	(3.3)	0.5	(1.2)
Range	1.1	(2.0)	1.4	(2.4)	3.0	(3.2)	6.0	(4.8)	7.3	(7.6)	9.6	(8.3)	7.0	(4.1)	7.0	(7.2)	8.5	(8.2)
Median	3.3	(3.2)	3.0	(2.9)	2.3	(2.2)	12.7	(10.6)	3.1	(2.5)	-0.6	(0.0)	18.2	(16.1)	7.9	(7.1)	4.4	(5.0)
Average	**3.3**	**(3.2)**	**3.2**	**(3.0)**	**2.7**	**(2.6)**	**12.6**	**(10.6)**	**2.6**	**(2.0)**	**-0.9**	**(-0.3)**	**18.0**	**(15.9)**	**7.6**	**(7.0)**	**4.1**	**(4.7)**

Figure 5: Equity brokers (4 contributors)

	Rental value growth %						Capital value growth %						Total return %					
	2006		2007		2008		2006		2007		2008		2006		2007		2008	
Maximum	4.0	(3.5)	5.0	(4.0)	3.0	(3.8)	13.0	(12.9)	7.0	(4.1)	2.0	(3.8)	18.0	(18.1)	12.0	(10.0)	7.0	(8.2)
Minimum	3.4	(3.0)	3.6	(3.5)	3.0	(3.0)	12.0	(9.5)	2.8	(2.5)	1.5	(0.0)	17.3	(15.0)	7.0	(7.7)	5.0	(5.0)
Range	0.6	(0.5)	1.4	(0.5)	0.0	(0.8)	1.0	(3.4)	4.2	(1.6)	0.5	(3.8)	0.7	(3.1)	5.0	(2.3)	2.0	(3.2)
Median	3.9	(3.2)	4.1	(3.9)	3.0	(3.1)	12.8	(11.1)	3.6	(3.8)	1.9	(2.0)	17.9	(16.9)	8.5	(8.6)	6.7	(7.1)
Average	**3.8**	**(3.2)**	**4.2**	**(3.8)**	**3.0**	**(3.3)**	**12.7**	**(11.1)**	**4.3**	**(3.5)**	**1.8**	**(1.9)**	**17.8**	**(16.7)**	**9.0**	**(8.7)**	**6.3**	**(6.9)**

Figure 6: All forecasters (30 contributors)																		
	Rental value growth %						Capital value growth %						Total return %					
	2006		2007		2008		2006		2007		2008		2006		2007		2008	
Maximum	4.0	(4.0)	5.0	(4.4)	4.5	(4.7)	16.0	(15.7)	7.0	(5.8)	4.6	(4.8)	22.0	(20.8)	12.0	(10.5)	9.0	(9.4)
Minimum	2.9	(2.0)	2.6	(1.7)	1.5	(1.5)	10.0	(8.0)	-1.6	(-1.8)	-5.0	(-4.9)	15.0	(13.6)	3.2	(3.0)	0.1	(0.2)
Range	1.1	(2.0)	2.4	(2.7)	3.0	(3.2)	6.0	(7.7)	8.6	(7.6)	9.6	(9.7)	7.0	(7.2)	8.8	(7.5)	8.9	(9.2)
Median	3.4	(3.2)	3.5	(3.4)	3.2	(3.2)	12.6	(11.0)	3.0	(2.9)	0.1	(0.1)	18.1	(16.4)	7.8	(7.9)	5.0	(5.2)
Std. Dev.	0.3	(0.4)	0.5	(0.7)	0.8	(0.9)	1.2	(1.8)	2.0	(1.9)	2.2	(2.2)	1.3	(1.7)	1.9	(1.8)	2.1	(2.2)
Average	**3.5**	**(3.3)**	**3.5**	**(3.3)**	**3.1**	**(3.1)**	**12.7**	**(11.2)**	**2.6**	**(2.5)**	**-0.1**	**(0.2)**	**18.1**	**(16.5)**	**7.6**	**(7.5)**	**4.8**	**(5.2)**

Notes

1. Figures are subject to rounding, and are forecasts of 'all property' or relevant segment Annual Index measures published by the Investment Property Databank. These measures relate to standing investments only, meaning that the effects of transaction activity, developments and certain active management initiatives are specifically excluded.

2. To qualify, all forecasts were produced no more than three months 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. Average - The arithmetic mean of all forecasts in the survey under each heading. All views carry equal weight.

8. Standard deviation - A statistical measure of the spread of forecasts around the mean. Calculated at the 'all forecasters' level only.

Survey summary results by sector

Figure 7: Sector summary												
	Rental value growth %				Capital value growth %				Total return %			
	2006	2007	2008	2006-10	2006	2007	2008	2006-10	2006	2007	2008	2006-10
Office	5.6	6.0	5.0	4.5	16.7	5.2	1.4	4.3	22.4	10.5	6.6	9.6
Industrial	1.3	1.6	1.8	1.7	11.0	1.4	-0.6	2.2	17.1	7.2	5.3	8.0
Standard shops	2.2	1.5	1.6	1.8	8.9	0.1	-1.2	1.7	13.8	4.7	3.5	6.4
Shopping centres	3.4	2.3	2.2	2.5	11.5	0.9	-0.9	2.1	16.8	5.8	3.9	7.3
Retail warehouses	3.2	3.0	3.3	3.4	11.5	1.7	0.2	3.4	16.1	6.1	4.7	8.0
All property	**3.5**	**3.5**	**3.1**	**3.0**	**12.7**	**2.6**	**-0.1**	**3.0**	**18.1**	**7.6**	**4.8**	**8.1**
West End offices	10.8	8.5	6.3	6.3	23.4	7.8	2.8	6.6	28.8	12.3	7.2	11.3
City offices	7.7	9.6	6.0	5.1	19.3	8.4	2.4	5.0	25.0	13.4	7.5	10.2
Office (all)	**5.6**	**6.0**	**5.0**	**4.5**	**16.7**	**5.2**	**1.4**	**4.3**	**22.4**	**10.5**	**6.6**	**9.6**

Of the 30 contributors at the all property level, 27 provided sector forecasts, (13 property advisors, 12 fund managers and 2 equity brokers). In addition, 21 contributors provided West End office and City office segment forecasts, (9 property advisors, 10 fund managers and 2 equity brokers).

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Fund managers: Cordea Savills, F & C Property Asset Management, Henderson Global Investors, ING Real Estate Investment Management (UK) Ltd, Invista Real Estate, INVESCO Real Estate, LaSalle Investment Management Morley Fund Management, Prudential Property Investment Managers, RREEF Ltd, Schroders Property Investment Management, Scottish Widows Investment Partnership, Standard Life.

Equity brokers: Exane BNP Paribas, Merrill Lynch, Unnamed, Unnamed

Global REITs and choices to make

Freelance journalist Tim Horsey reports on the recent IPF meeting on Global REITs.

REITs appear to be on a roll in Europe. With the legislative hurdles overcome in the UK and Germany, the two largest real estate markets in the continent are set to have a new investment instrument at their disposal. Quentin Freeman, analyst at UBS, also believes that Italy is likely to allow REITs very soon, even perhaps as part of the country's next budget legislation. And in the parade of world nations lining up to take the REIT step, he also includes the flags of Finland, India, the Philippines and South Africa.

Freeman thinks that REITs should be created in forms that are as free as possible from restrictions. In this respect the maximum single shareholding of 10% for the UK vehicle is likely to be problematic, and will limit the range of companies effectively able to convert to REIT status. There is however a feeling in the UK industry (if this meeting's audience was any indicator) that legal experts will find ways around this barrier. But if a lack of barriers makes for the ideal REIT, Turkey appears to lead the world.

Ernst-Jan de Leeuw of LaSalle Investment Management Securities takes a positive view of the global spread of REITs, a movement he believes will expand the universe of securitised property and provide investors with better access to the real estate sector around the world. This should, he thinks, lead to a wider choice of tax efficient and liquid vehicles that are wholly transparent in terms of information disclosure.

Price information is a key element of this, and there is considerable debate on whether UK REITs in particular are likely to be valued on a net asset or cash-flow basis. Freeman judges that initially at least NAV is likely to be paramount, though this may reflect the present state of the market, where there still seems to be growth potential in the pipeline. If and when the market weakens, he believes that cash flow will come to the fore and the yield-generating benefits of these vehicles should gain emphasis – a fact that is likely to reflect in valuation.

Indeed, Freeman believes that current market conditions in the UK are not the most obviously fertile breeding ground for REITs. As things stand REITs don't seem necessary to provide liquidity, given the flexibility and success of the unlisted vehicles market. They may generate increased interest from retail investors, but this depends whether private individuals are prepared to accept the low yields likely to be on offer, and are able to access the potential tax benefits in practice.

Joaquim Ribeiro, Head of Finance, Planning and Control at Sonae Sierra, is positive about the potential benefits of REITs, particularly for increasing the liquidity and exit options for investors in a fund. This is likely to be far better than in either open-ended funds – witness the case of Germany – or for listed companies, where the price can often be very volatile, as was seen in Spain recently.

But he does not necessarily believe that REITs can succeed everywhere, and counsels that there were failures as well as triumphs, as seen in the case of the Nordic countries. He feels a REIT domino effect is unlikely in Europe, as many countries have little awareness of the vehicle, while some have alternative structures (such as open-ended funds in Germany and Portugal) that have successfully established a dominant position in the market. They also need to be introduced at the right time, or else in an environment where a transmission mechanism can be put in place for moving from one investment model to another.

REITs do however, Ribeiro thinks, play a role in tackling some of the financial and economic problems facing Europe, in particular the pensions deficit affecting much of Southern Europe. As a member of the European Property Federations EUREIT committee he is promoting the development of a pan-European structure. This depends on tax harmonisation (though not necessarily equalisation) across a number of countries, but does not require the adherence of the whole EU – a situation allowed for in the 'two speed Europe' provisions of the Treaty of Rome.

De Leeuw's favourable view of REITs around the world is tempered by realism about the varying quality of property-holding organisations that may be able to, or have already, attained tax-free status. And even the tax-free aspect may look better on the surface than it proves in practice. For example, UK property companies were probably paying an average rate of corporation tax around 20% over the last 10 to 15 years, considerably lower than the theoretical tax burden to which they are subject.

But most importantly for de Leeuw, the REIT model can cover a multitude of business forms and practices, even within one market. He favours true companies – going concerns operated by their own internal management. This kind of structure is generally less expensive to run and so should provide a larger dividend yield to the investor. It should also mean that the managers' interests are more closely aligned to those of the investors, especially if they hold some of the share capital themselves. The organisation should also have a proven competitive advantage, with a performance record to show that it can hold its own in any of the sectors where it operates. This may imply sector specialisation but doesn't have to, for example Unibail represents a good REIT model in the French market.

De Leeuw also likes companies which are successful developers in their own right, rather than purely dependent on standing investment acquisitions which, particularly in current market conditions across Europe, can mean expensively bought assets. Clearly the restrictions on development within some national REIT structures – that have so far deterred the likes of Helical Bar from converting in the UK – may mean that such ideal structures are not universally available. Freeman believes that the UK form will probably need further loosening before it reaches

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Highland fling

Paul Findlay, Arlington Property Investors UK Ltd

Paul Findlay discusses the food for thought offered at the 3rd IPF Annual Scottish Conference held in September.

The 3rd IPF Annual Scottish Conference, introduced and chaired by current IPF Scottish Board Chairman Fiona Morton of Ryden, was entitled 'Is property priced for perfection' and could not have been more topical in today's market.

Property performance over the past five years was 'basking in glory' according to Land Securities' Francis Salway. The IPD All Property initial yield at 5% has only just maintained positive arbitrage to medium term five to 15 year gilts. In the last six months to July 2006 alone, the spread between the two rates has closed by 82 basis points. This may be interpreted as either an adjustment to a long run equilibrium in pricing or an overheating in the property market. Nevertheless, the investor interest in the property sector will intensify as REITs are introduced in the UK next year. The increase in liquidity and divisibility of REITs, will bring another dimension of risk and volatility adding to today's already well priced market. The fastest growing ownership of UK commercial property is from unitised/pooled property funds and limited partnerships at a combined share of 38%. With this, and more focus on the sector in general, we are likely to see the emergence of specialist areas of investment, product and structures increasing commercial property investment and the size of the profession.

A greater insight into where the money is coming from and how investors can manage this wealth was given by Jenny Buck of Schroders. The emergence of the private owner-investor in UK commercial property has almost doubled the levels of debt reached in 1991. A significant withdrawal by life funds and subsequent increase by retail fund investors in the sector ownership has created a demand for greater access and choice in the market. In response opened ended property funds as indirect non-listed vehicles or offshore investment companies, both offering increased diversification, preservation of capital and sustainable long-term income, has grown. The range of funds available is important, and the skill and knowledge in selecting the right combination at the right time key. Optimally, individual investment managers must be monitored and a fund's opportunities, risks and likely returns at the extreme core and opportunistic end of the market must be assessed. Financial structure and ownership analysis together with in-house research and modelling will also provide the components to a final holistic decision.

Credit Suisse's Ian Marcus further segmented the case for the evolution of REITs in the UK. This market has been actively trading in USA, Australia, Netherlands, Singapore and France for some time and some common facts stand out. REITs in these countries trade at a premium to NAV, in the extreme as much as 32.1%. This compares to the existing UK listed real estate sector where trading at a discount to NAV is low as -7.1%. Looking beyond this, property derivatives may have an even more important role to play in hedging positions and managing exposure to the sector. Players in the market are likely to get more sophisticated and corporate consolidations creating companies dealing in a wider range of product in more complex structures will take place. A need for better educated property specialists and a well informed market place will help create a smoother transition.

If I could add anything to the debate at this point, it is that the most frequent NAV available to the market place is on a monthly basis. This is a considerable amount of time for investors to debate and properly decide on whether assets are either over or under priced and thus premiums or discounts are justified.

Andrew McLaughlin of the Royal Bank of Scotland put a simple, yet effective answer for the current pricing of property. The economy is in a state of rude health justifying high level of corporate expansion and occupancy. However, the property market equivalent yield was below its 20 year average. From an investment point of view there is now almost zero benefit between current funding rates in property and the risk free return. This could also be said to be the same for the investment grade corporate bond market, where spreads on the highest investment grade bonds were at an all time low. With the prospect of higher borrowing rates to come, a market correction looks likely.

Although long-term gilts rates are at a lower level than shorter dated guilts, the inverted yield curve would not suggest a panic, but selective over pricing has taken place. This may be apparent on the High Street or more secondary components of the market.

Co-Chairmen

Fiona Morton, Ryden (IPF Scottish Board Chairman)

Ian Womack, Morley (IPF Chairman)

Speakers

Francis Salway, Land Securities

Jenny Buck, Schroders

Ian Marcus, Credit Suisse

Andrew McLaughlin, RBS

Panellist

Phil Miller, Miller Developments

Sponsors

Royal Bank of Scotland and Miller Developments

General round-up

Vivienne Wootten, IPF, Acting Executive Director

Forum news

Now that the long, hot summer is a distant memory, it seems a little out of place to be reflecting on the IPF Annual Dinner held at the end of June. But it was such a fantastic event that it deserves a mention. Our Chairman, Ian Womack, took the podium for the first time and outlined his plans for the year ahead. Then we were treated to the humour of our after dinner speaker, Dara O'Briain. Following the official proceedings, guests continued to enjoy the evening and helped raise over £10,000 at the charity casino, beneficiaries of which are the IPF Educational Trust and, this year's Chairman's nominated charity, East Anglia's Children's Hospices (EACH).

Management Board update

Nick Ritblat retired from the Board after seven years service at the June IPF AGM. Nick made an enormous contribution to the Forum and always offered sound advice and challenge. The Forum's loss however, is the BPF's gain as he took up the role of President.

We are delighted to announce that we have a new management board member (subject to approval at the IPF AGM, June 2007). Toby Courtauld, Chief Executive at Great Portland Estates, is well known within the property industry and will no doubt help steer the direction of the IPF in the years to come.

Regions

The three IPF regions continue to go from strength to strength. The regional board in Scotland once again executed an extremely well-received conference and is planning a similar high quality event for autumn 2007. Many thanks to Fiona Morton of Ryden and the other members of the board who have helped make this one of the leading property events in the Scottish calendar.

In the Midlands, Andrew Yates of Pinsent Masons stepped down from the role of Chairman having led the regional board for the past two years. David Allen of NAI Fuller Peiser has taken over the role of Chairman and will be supported by Adrian Watson of Cobbetts LLP in the role of Vice Chairman.

The development of the IPF in the North of England continues apace. Andrew Quinlan of Pinsent Masons in Leeds and Ben Roberts of Kenmore in Manchester are leading the two pronged attack in recruiting members and developing a programme of events. They are supported by a number of other members in the region and have so far managed to increase the number of members to more than 90.

Free members events

In September, we held two joint events which were both well supported by members. The first was held jointly with the Society of Property Researchers (SPR) and looked at The Outlook for European Property and the second held together with the BPF and RICS looked at REITs.

Property Industry Alliance

The four founder members (IPF, BCO, BPF and RICS) of the Property Industry Alliance (PIA) continue to identify areas of common interest and work. The PIA is joining with the British Retail Consortium to work with Government to ensure a practical and pragmatic introduction of the EU Energy Directive into the UK property market. The four PIA bodies are funding, jointly with CoreNet, research to produce an Occupier Satisfaction Index in 2007, continuing previous work by the RICS. Both of these initiatives demonstrate the commitment of the PIA to engage with the occupier side of the property industry. The PIA has identified research as an area with enormous potential for joint work to present a unified view from the property industry.

Special Interest Groups:

- *Property Derivatives Interest Group (PDIG)*

The Property Derivatives Interest Group continues to grow and had its first quarterly breakfast on 19 September hosted by ABN AMRO. Ian Cullen presented the highly anticipated IPD volume report and Andrew Baum and Colin Lizieri of the University of Reading both presented their latest research on Property Derivatives pricing.

As an IPF member to receive invitations to PDIG events and the newsletter please email Sabrina on swisner@ipf.org.uk. Subscription is free to members, but you must opt in, and £50 to non-members. For more information please see www.propertyderivatives.co.uk

- *Sustainability Interest Group (SIG)*

The launch of the IPF's latest special interest group is planned for early 2007. This group, chaired by Paul McNamara of PruPIM, and jointly held with the IICC (Institutional Investors in Climate Change) looks at financial returns and how sustainability can provide value to the investment property market. Please contact Sabrina on swisner@ipf.org.uk if you would like to be involved.

Education

The IPF Investment Education programme has re-launched its post graduate modular programme with a new e-learning module 'Property as an Asset Class' and a new module covering Indirect Investment. The first two modules 'Investment Valuation and Portfolio Theory' and 'Financial Instruments & Investment Markets' have run already this year but the advanced modules are still to come. If you are interested in finding out more please go to ww.ipf.org.uk and click on education.

The Autumn 2006 CPD programme has also done very well with four lectures covering the topics: Global REITs (see article page 19), Understanding Occupational Property Decisions, the Wall of

Money and the Impact of the Olympic Legacy. A technical briefing also ran looking at the property derivatives pricing research recently published by the IPF and IPF Education Trust Research Programme. This research, as well as all of the papers from the CPD lectures, are available on www.ipf.org.uk in the member's area.

Planned for Winter/Spring 2007 are two new workshops on derivatives, including an operational workshop, and a workshop looking at the MiFID legislation coming from Europe. This will run alongside the new CPD programme which is being developed currently. All information about these workshops and future lectures is available at www.ipf.org.uk

If you have any suggestions for workshops or CPD lectures that you would like to see the IPF cover please do email Sabrina Wisner on swisner@ipf.org.uk

Future dates for your diary

Outlook for Property and the Economy
23 January 2007 (tbc): London

IPF Annual Lunch 2007
31 January 2007: London (Grosvenor House)

Economic Outlook
9 February 2007: Glasgow

Northern Regional Lecture
20 February 2007: Manchester

Midlands Region Annual Lunch 2007
20 April 2007: Birmingham (Burlington Hotel)

IPF Annual Dinner 2007
27 June 2007: London (Grosvenor House)

Midlands Region Annual Dinner 2007
18 October 2007: Birmingham (ICC)

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an ideal state in which it can challenge all the current advantages enjoyed by non-listed vehicles, such as the Jersey PUT. These private funds have the benefit of being able to gear up to high levels, though this is always likely to be at the expense of the transparency and effective governance that is one of the greatest strengths of REITs.

De Leeuw agrees that too many rules can spoil the REIT story. He believes that the market should be allowed to decide what the right level of leverage is, and to determine the correct shareholder structure. A maximum 10% shareholding may be logical for governments aiming to boost tax revenues, but this hasn't been regarded as necessary in the Dutch and USA regimes. And he sees the introduction of an 'UPREIT' type structure through which companies can sell properties into REITs at a reduced tax rate as virtually essential for ensuring the efficient employment of capital.

At present, the USA and Canada account for almost half the world's listed vehicle value in terms of gross market capitalisation. UBS believes that developments in the Continental European and Japanese REIT markets are likely to diminish this share somewhat over the next five years, but that there seems little prospect of the direct property markets being revolutionised by the advent of this new vehicle. As Ribeiro emphasises, true structural change generally takes decades. We should remember that REITs have existed in the USA since the 1970s, and only really took off as the response to a market in crisis.

Lecture speakers: Quentin Freeman, UBS. Joaquim Ribeiro, Sonae Sierra. Ernst-Jan de Leeuw, LaSalle Investment Management. Chairman: Andrew Hynard, Jones Lang LaSalle.

Presentations from this event are available to members in the members area of www.ipf.org.uk

Back to the future for the IPFET

Andrew Graham and Simon Clark discuss the importance of education, education, education.

During the 1990s it became clear to the IPF that there was a great need for better education in the property investment sphere and to make those involved compete in the wider investment world. In this the Forum took the lead, creating a framework of courses and linking up with universities, to provide an educational basis for property investment in the UK.

Andrew Graham of Colliers CRE, now Chairman of the IPF Educational Trust (IPFET), soon became aware that this was only a start. "IPF subscriptions were always on an individual basis," says Graham, "which meant that the Forum was only really supporting education to a nominal extent. A lot of people made money out of property, so there needed to be a way of helping them putting something back to help those students who decided to specialise in the investment market".

The IPFET arose from this need for a tax-efficient way of tapping into the goodwill of the property business, and as it grew the need to formally separate from the Forum became clear under the Charities Act. The Trust was set up as a charity that could reclaim any tax paid, and also earn interest tax-free.

Simon Clark of Linklaters, another of the body's current trustees, started to appreciate the industry's education needs at this time. "I first became involved through participation in an IPF working group chaired by Michael Mallinson," recalls Clark, "which looked at the skill set needed by an investment surveyor, and how this was changing in the modern property world. This was the first time such issues were considered, and led to the work by John Storey to create the Investment Education Programme for the IPF. So education was a big part of the IPF's work right from the beginning."

Since 2003, the IPFET has turned its attention to the Joint Research Programme, which has run its three-year course. Research responsibilities were passed on by the Trust to the IPF itself. Clark explains that "research within the IPF has now achieved its own momentum, and doesn't need the support of the Trust in the way it did earlier. Support for the Trust came from a wide range of organisations, reflecting the strength of recognition that these aims were worthwhile."

The following organisations generously gave support to the Joint Research Programme:

- Capital & Regional • Quintain • Donaldsons
- SWIP • Grosvenor • SJ Berwin • GVA Grimley
- Strutt & Parker • IPD • Land Securities • KPMG
- LaSalle Investment Management • Lovells
- Morley Fund Management • Nabarro Nathanson
- PruPIM

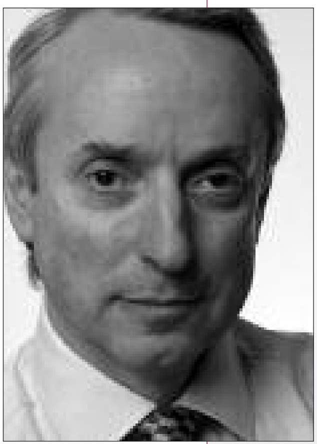
The 16 supporters of the Joint Research Programme gave money on an annual basis for three years. The Programme was established with Charles Follows as Director, who was responsible for co-ordinating ideas for research and then going out into the academic market to get the projects done. He has also vetted the completed research.

Clark believes that "the great benefit of having Charles involved is that it has professionalised the way in which academics and property researchers have supported it. The Trust is confident that the work produced has been relevant and authoritative". The research programme has been very successful, with projects covering the following:

- Liquidity of commercial markets
- Opening the door to property
- Depreciation in commercial markets
- Investment performance and lease structure change in the UK
- The size and structure of the UK commercial property market
- Sustainable property appraisal
- Forecast disagreement in UK property markets
- Institutional investment in regeneration
- The investment performance of listed office buildings
- Behavioural influences on property stock selection decisions
- Index smoothing and the volatility of UK commercial revisited
- Diversification in property portfolios
- Planning policy and retail property market performance in English towns and cities
- Property derivative pricing guidance note
- Asset allocation issues in the modern world
- Evaluation of small business legislation
- Liquidity on the buy side, PhD at Sheffield University

Stuart Beevor (Grosvenor) and Philip Nelson (Trehaven Group) represented the Trust on the research joint effort with the IPF, with Amanda Keane (IPF Executive Director) and Charles Follows also attending trustee meetings of the IPFET. The Trust is independent, but aims to keep costs of administration to a minimum by making use of IPF staff. Andrew Kearley, the Trust's Secretary, is its one paid officer, and is responsible for the accounts and internal administration.

Andrew Graham, Colliers CRE



Simon Clark, Linklaters

Graham now sees the IPF's research entering a new phase, with a full-time director carrying on the programme entirely within the Forum itself. "The baby has grown up," he says, "so the Trust's research role has largely ended. It is now turning its attention to education, back to where it began."

The IPFET has raised over £1m, with an asset base of about £500,000 today. This strong financial position provides a lot of potential for building on the educational structures that were first developed in the 1990s. In one initiative the Trust has helped to upgrade the IPF's Investment Education Programme. Graham explains that it is now pursuing two particular pilot initiatives:

"ASDA Property has contributed money for the first e-learning module, which takes the education provision to another stage. Property as an asset class is a module of the Investment Education Programme, which is fully online to enable remote learning. Within the Programme a module on indirect vehicles is also being developed, again jointly with Manny Davidson at ASDA. To this will be added a module on indirect investment."

"The Trust also gives three prizes every year," continues Graham: "one for the overall best performing student in the Investment Education Programme, one for the student completing the best single module in the Investment Education Programme, and one for the highest mark in the University of Reading's investment and fund management course. And whenever those running the Investment Education Programme want to upgrade its courses, the Trust is a potential source of funding."

But the main focus of the IPFET's educational efforts is the universities. Graham believes that there is now "a real problem getting new blood to maintain the high standards of education that were achieved on the leading university property courses." Clark sees this as the result of increased competition for bright young students. "The business world is now in a position to pitch for those who might formerly have been more likely to remain in academia," he thinks.

Graham feels that once students have finished their first degrees and done their tests of competence, there is huge pressure for them to get jobs, when their development would be furthered by them taking a PhD. "There is thus a big role for the Trust in enabling people to stay in further education," he says, "even if only for one extra year."

The Trust is now in the process of building stronger relationships with the universities so that they can ask for help with funding – starting with Cass, Aberdeen, Reading and Cambridge. Clark explains that the Trust wanted to begin by building relationships with the faculties of these four institutions, but that this is just the beginning. "Two types of support have been defined within these relationships," he says. "Firstly student support for post-graduates, who could be put forward for grants to help complete their periods of study, and secondly faculty member support, to allow departments to do things they might not otherwise be able to."

Clark sees the crucial work is now to create a mutual understanding of goals. "This does take some time," he says. "But it will lead not just to defined student support and faculty support provision, but also to the possibility of universities developing their property education in directions that might not come under those two headings. Once this takes off then the universities will become aware of what is available, establishing a virtuous circle."

The Trust believes that this kind of support, once developed, will reinforce university property departments, and help to stem the tide of intellectual talent out of academia into business. Graham emphasises that people have now done very well out of the industry, particularly over the last five years. "They would surely like to put something back?" he wonders. "Now the challenge is to enable the universities to move up to a higher plane, and to ensure that anyone coming into the industry is fully supported."

The Trust is thus envisaging a more general role in supporting education than has been pursued in the past. This may appeal rather less to business-focused interests than those which seek the general good, but this is not entirely new for IPFET. In the past it helped create the University of Reading Investment Library (with the support of Chelsfield) and the Computer Suite at the Cass Business School (funded together with the late Sir Murray Fox).

In the past, there may have been more of a two-way street between the property business and academia, with the likes of Andrew Baum and Bryan MacGregor moving from financial institutions back to the universities, but this is less the case today. At the same time the industry has become more sophisticated and so the demand for highly trained people is increasing. Clark believes more training is going on inside business, but this is not really a substitute for university education.

Graham recognises that professorships are very expensive to finance, but he thinks the Trust can make a difference for academics that are just beginning to make their way. "In the US, there is much more corporate funding for universities, and the UK has to go this way. We hope to give graduates the opportunity to continue their education, as property is a very specialised sector. The administration of the IPF is there to help the Trust and make sure that the money is properly spent."

Ultimately the Trust's new direction is about making the education basis of property investment sustainable. In this light, Graham feels it is appropriate that the IPFET is considering funding undergraduate prizes on sustainability in property within seven separate universities. "We hope that this kind of work can also be promoted at the IPF/IPD's joint conference, showing that it has a relevance to the wider business community." A long-term view now looks increasingly right for both the industry and the IPF Education Trust, which supports it.

IPF Investment Property Forum

Annual Lunch 2007

31 January 2007

Ticket Price £93.00
+ VAT (£16.27) per person
(excluding wine and liqueurs)

Grosvenor House Hotel Park Lane London W1 | 12:00 for 12:30 | Lounge Suits

Guest speaker: Sir David Clementi

Chairman, The Prudential Group and IPF President

The chairman of Prudential since 2002, Sir David took up the role of President of the IPF in August 2005. A chartered accountant with an MBA from Harvard University, Sir David worked at the investment bank Kleinwort Benson for 22 years, including stints as its chief executive and vice chairman. He was Deputy Governor of the Bank of England for five years, and also headed the government's review of the regulatory framework for legal services in England and Wales.

For more information about the Annual Lunch and to reserve tables, please download a booking form from www.ipf.org.uk

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