

Welcome.....



Cambridge University Land Society

Prospects for Property *In a post-crash Election Year*

November 13th 2014

Your Panel.....



Cambridge University Land Society

- **Steve Mallen**

- Principal, Steve Mallen Consulting
- Catz, 1984, Geography

- **Michael Brodtman**

- Head of Valuation & Advisory, CBRE
- Magdalene, 1978, Economics/Land Economy

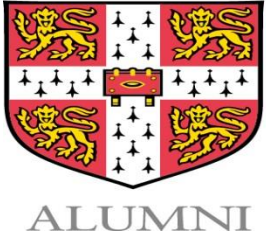
- **Robert Peto**

- Chairman, DTZ Investment Management
- Corpus, 1968, Economics/Land Economy

- **Mike Bryant**

- Head of Asset Management (Europe), GE Capital Real Estate
- Queens, 1985, Geography/Land Economy

Agenda.....



Cambridge University Land Society



Chairman.....

Overview

Steve Mallen

Principal, SM Consulting

November 13th 2014

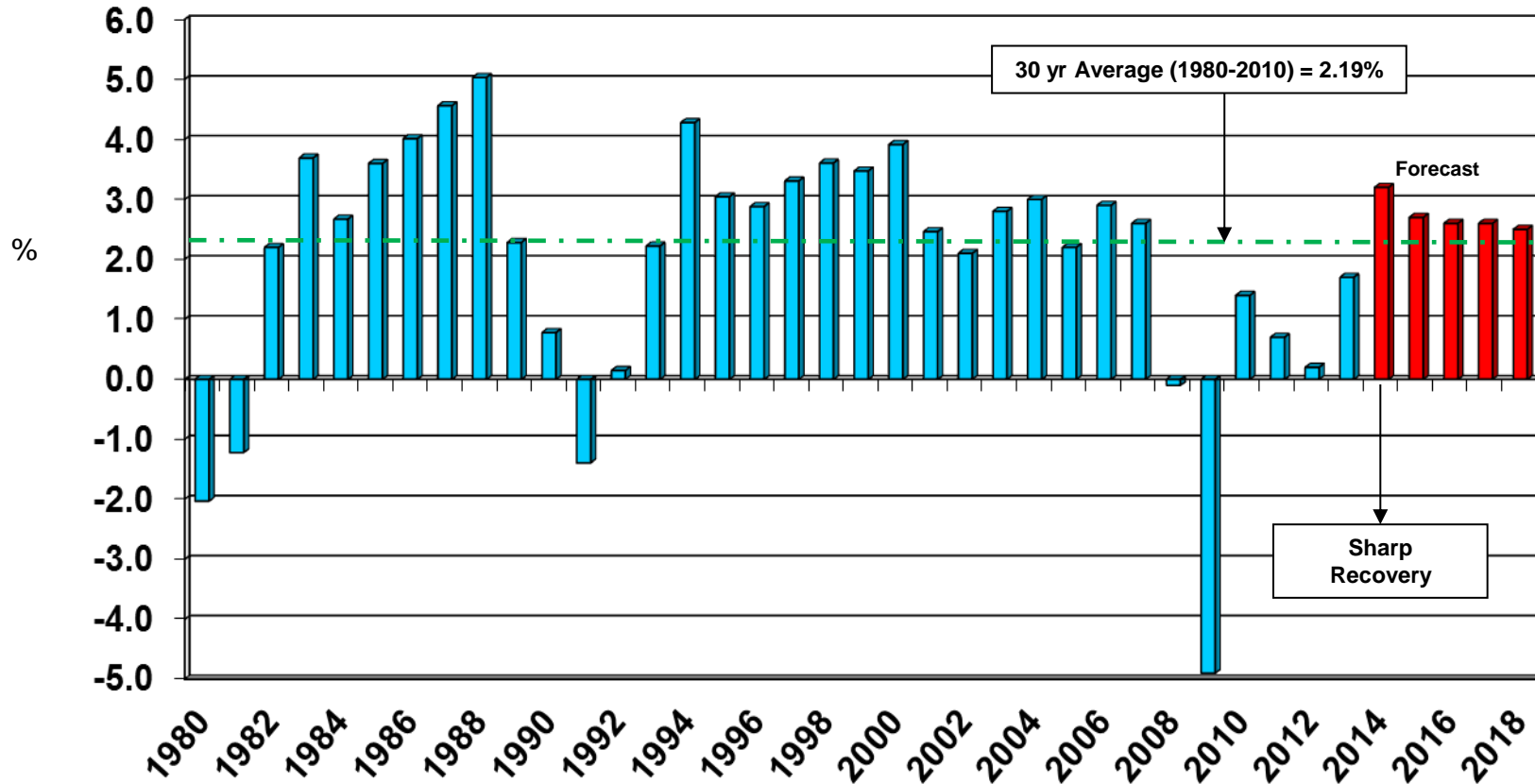


“Events, dear boy....events !”



UK Economic Growth

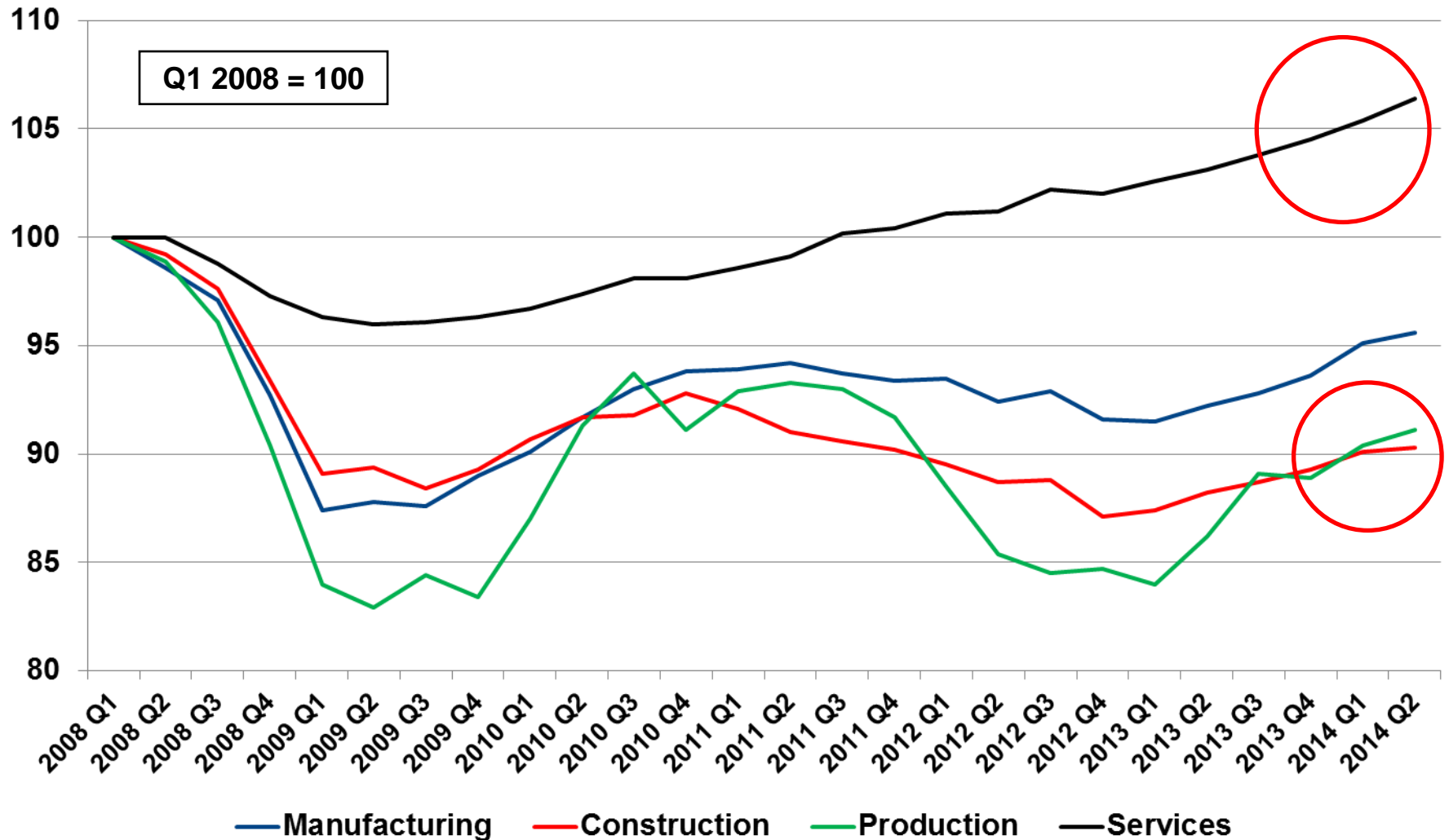
(GDP: 1980 – 2018)



Source: HM Treasury/IMF

GDP Growth by Sector

(Q1 2008 to Q2 2014)



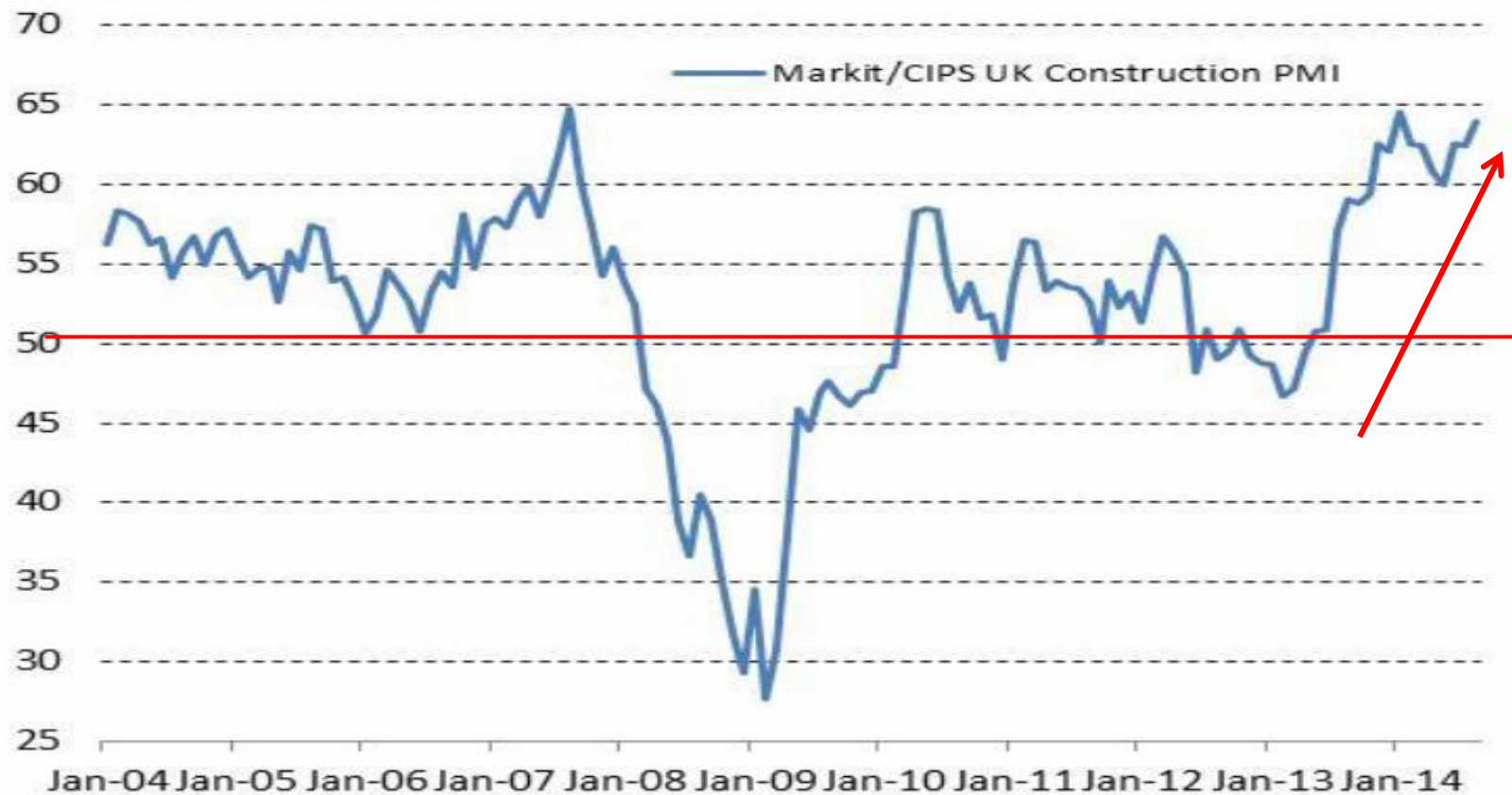
Source: ONS

Steve Mallen

Confidence Rebounds.....

Markit/CIPS UK Construction PMI[®]

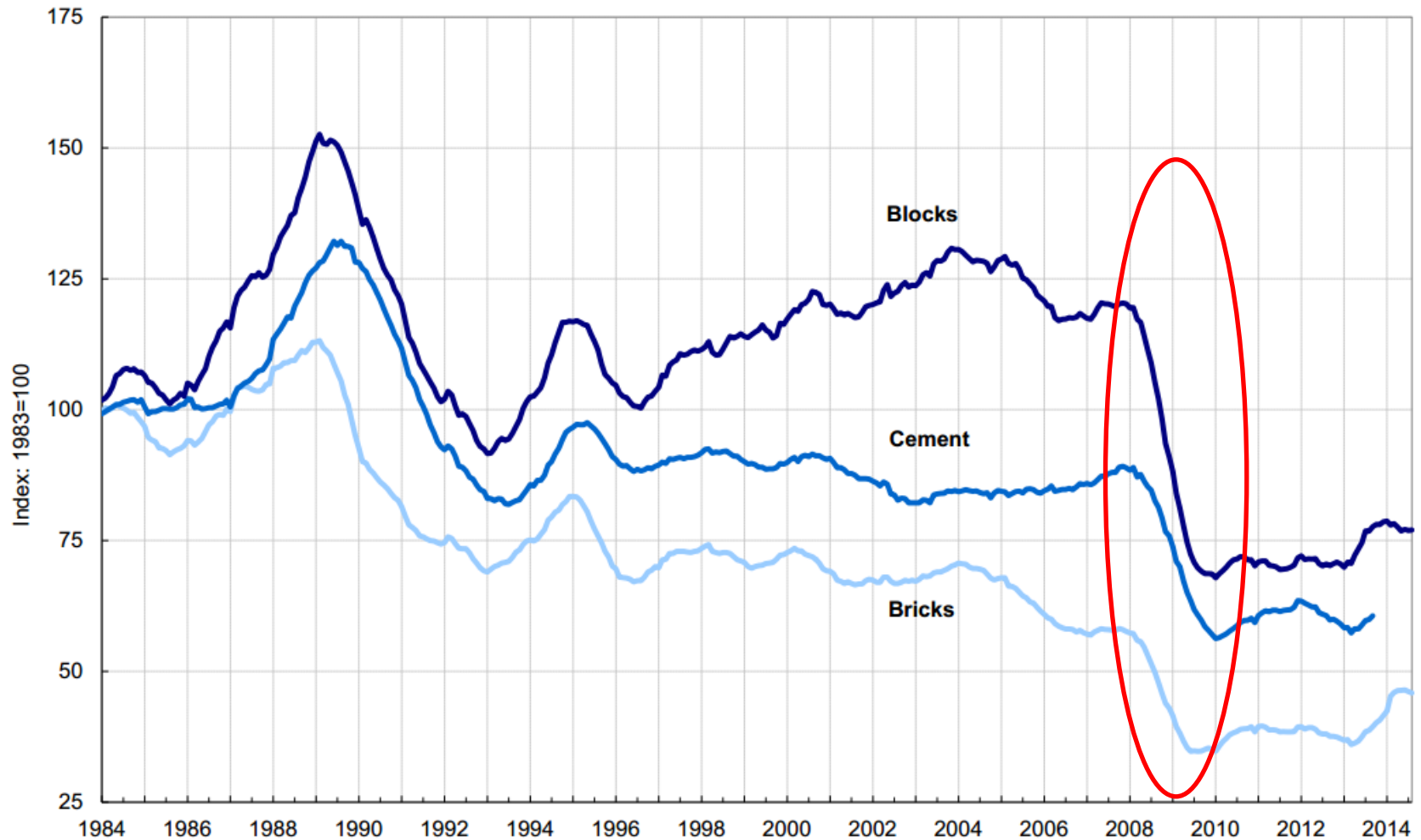
PMI, Seasonally Adjusted, 50.0 = no-change



Source: Markit/CIPS

Steve Mallen

.....Ahead of materials !



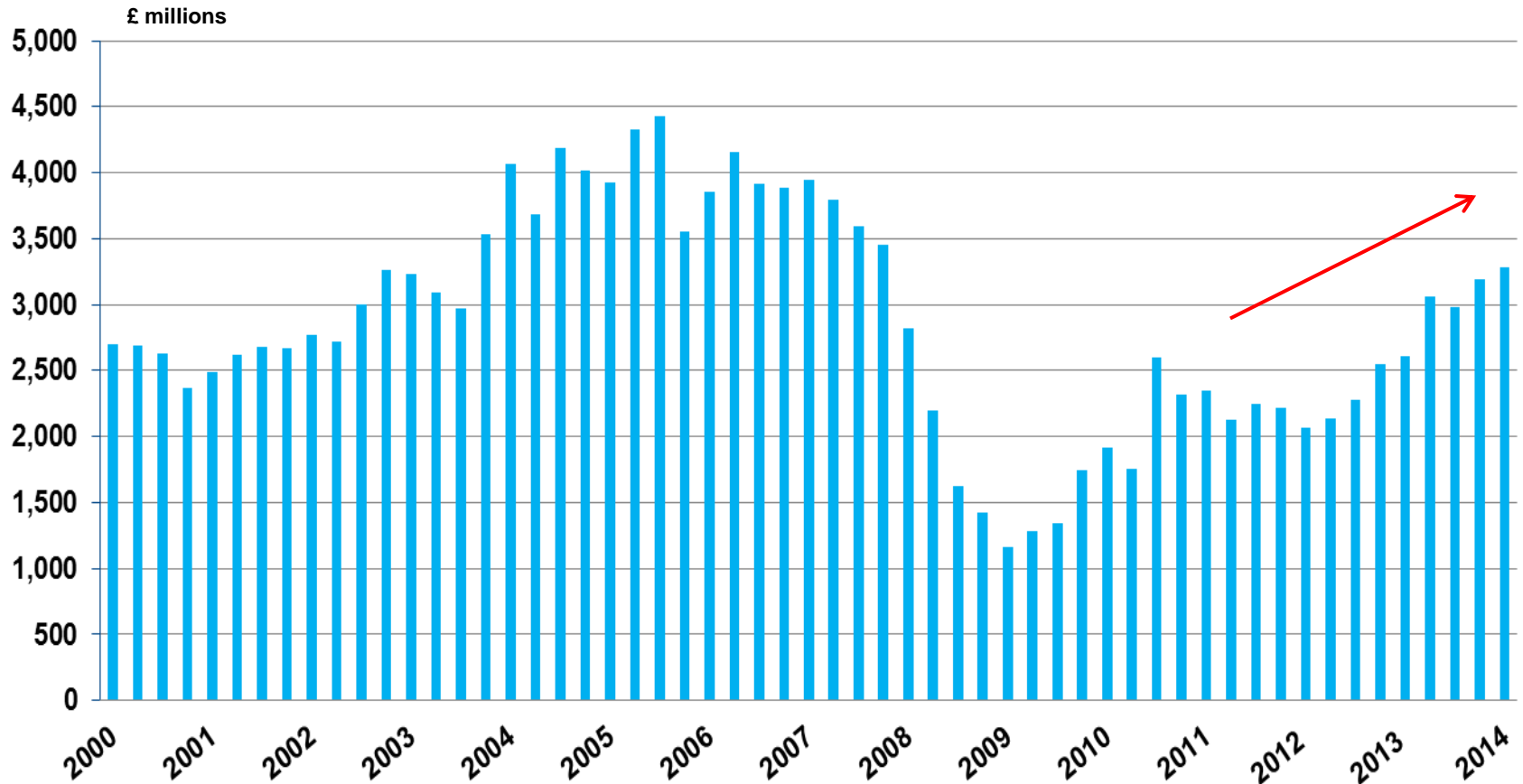
Source: BIS

Steve Mallen

Construction costs will rise.....

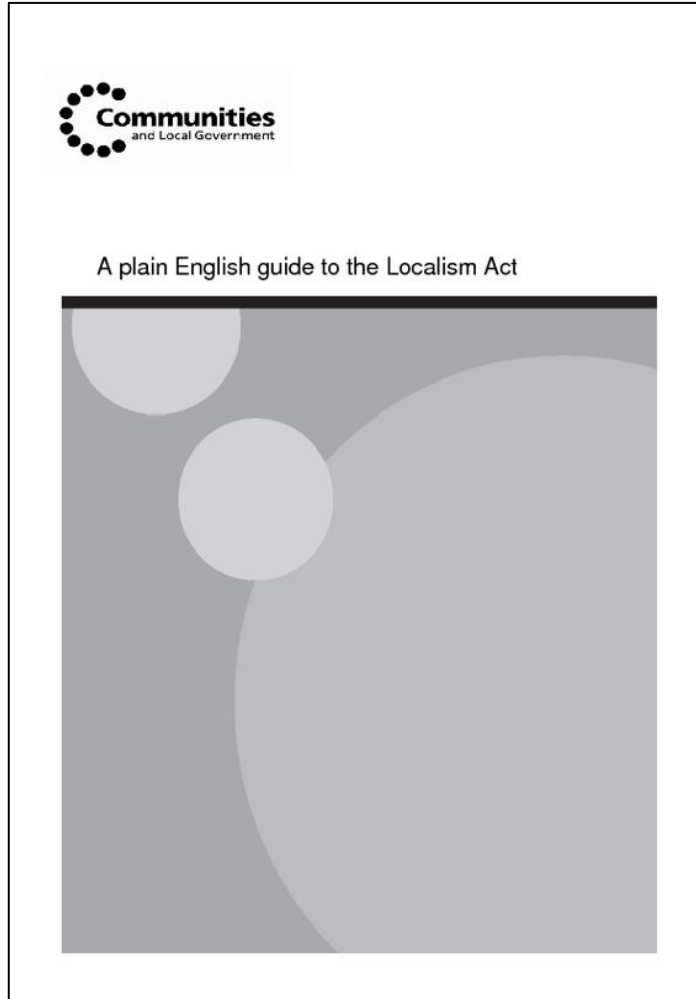


New Private Sector Housing Construction Orders (2000 to 2014)



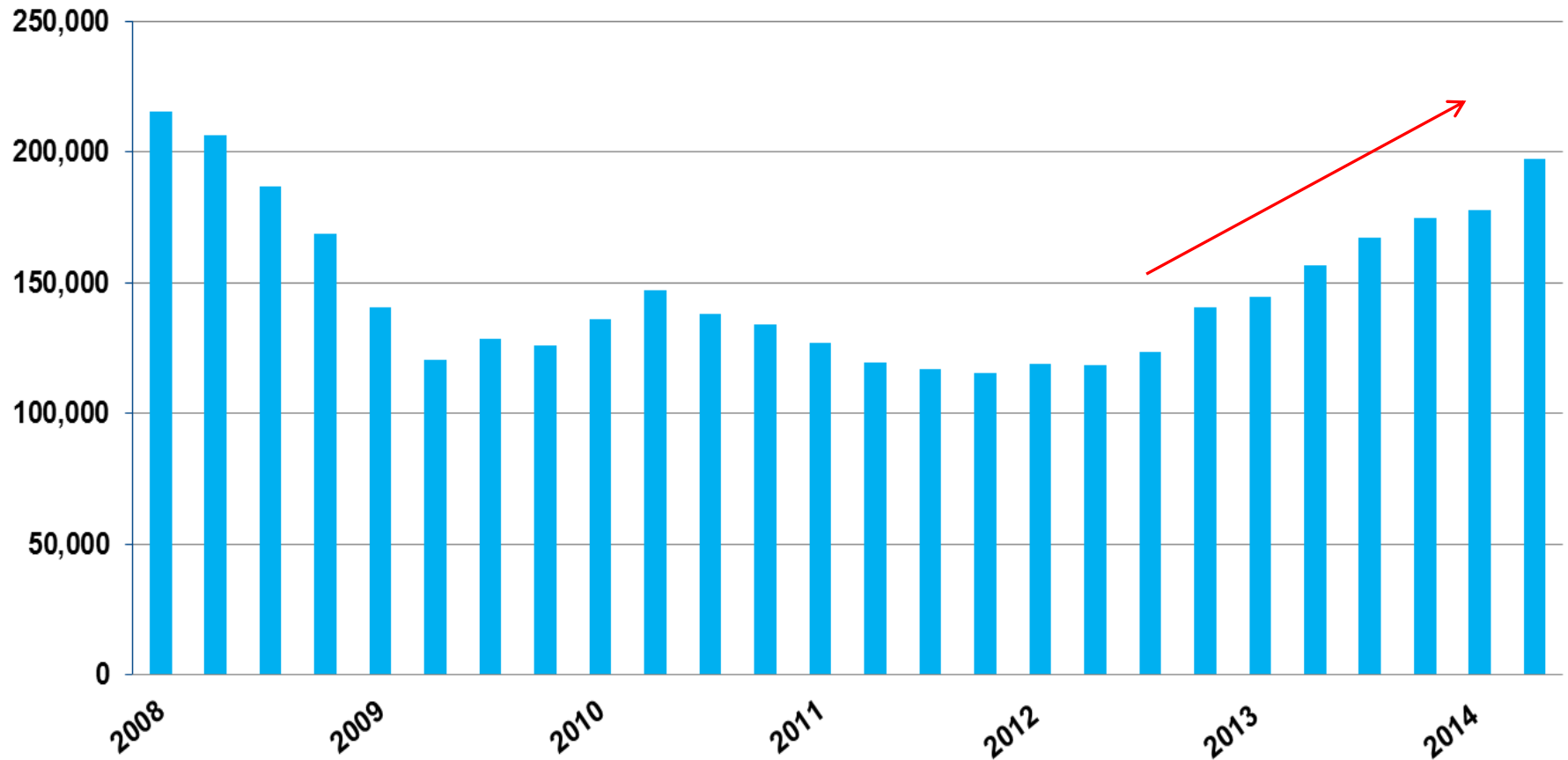
Source: ONS

Planning for Growth.....



Residential Planning Approvals - England

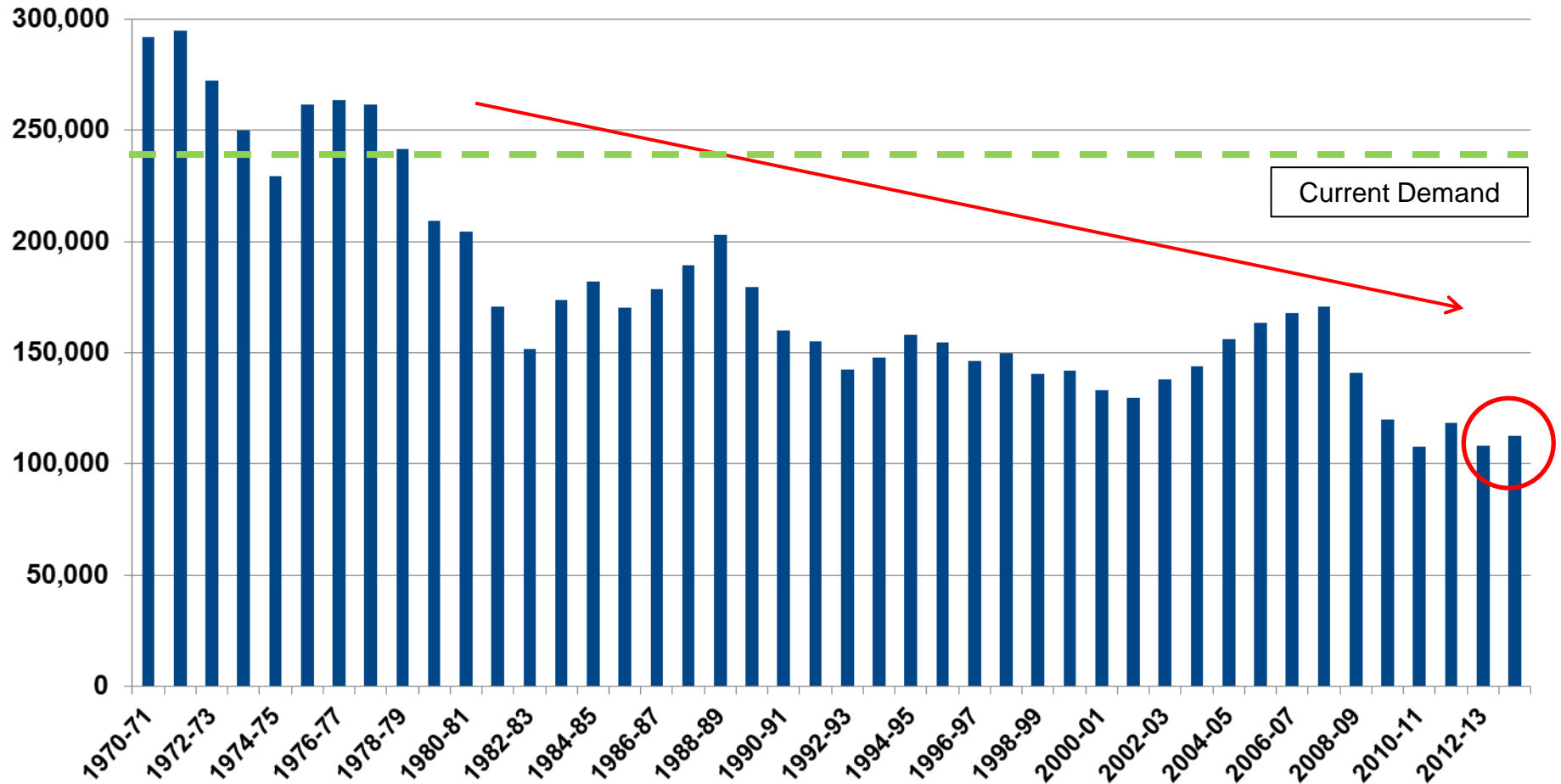
Moving Annual Total (2007 – 2014: 10+ units)



Source: HBF/Glenigan

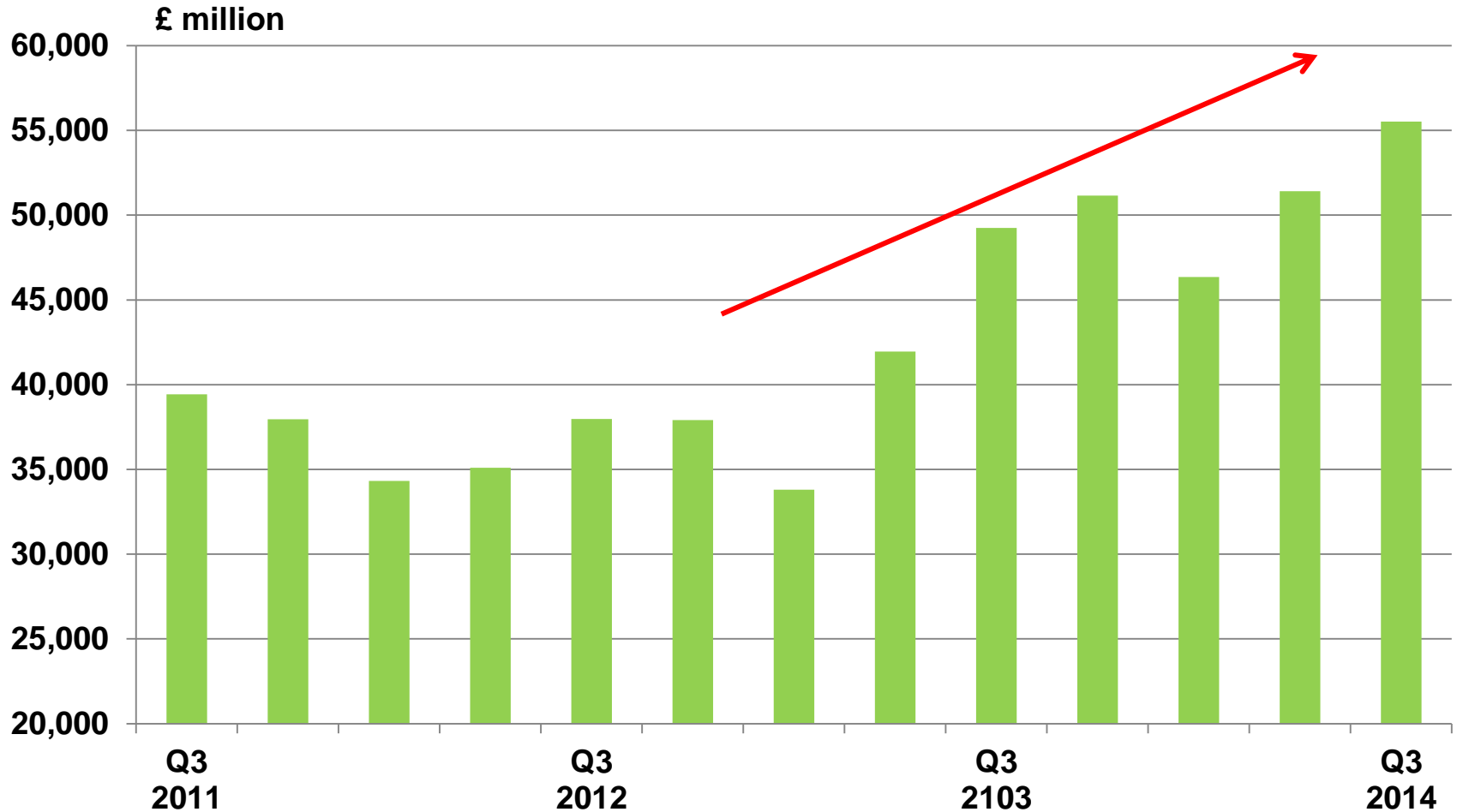
Housing Completions - England

(1970/71 to 2013/14)

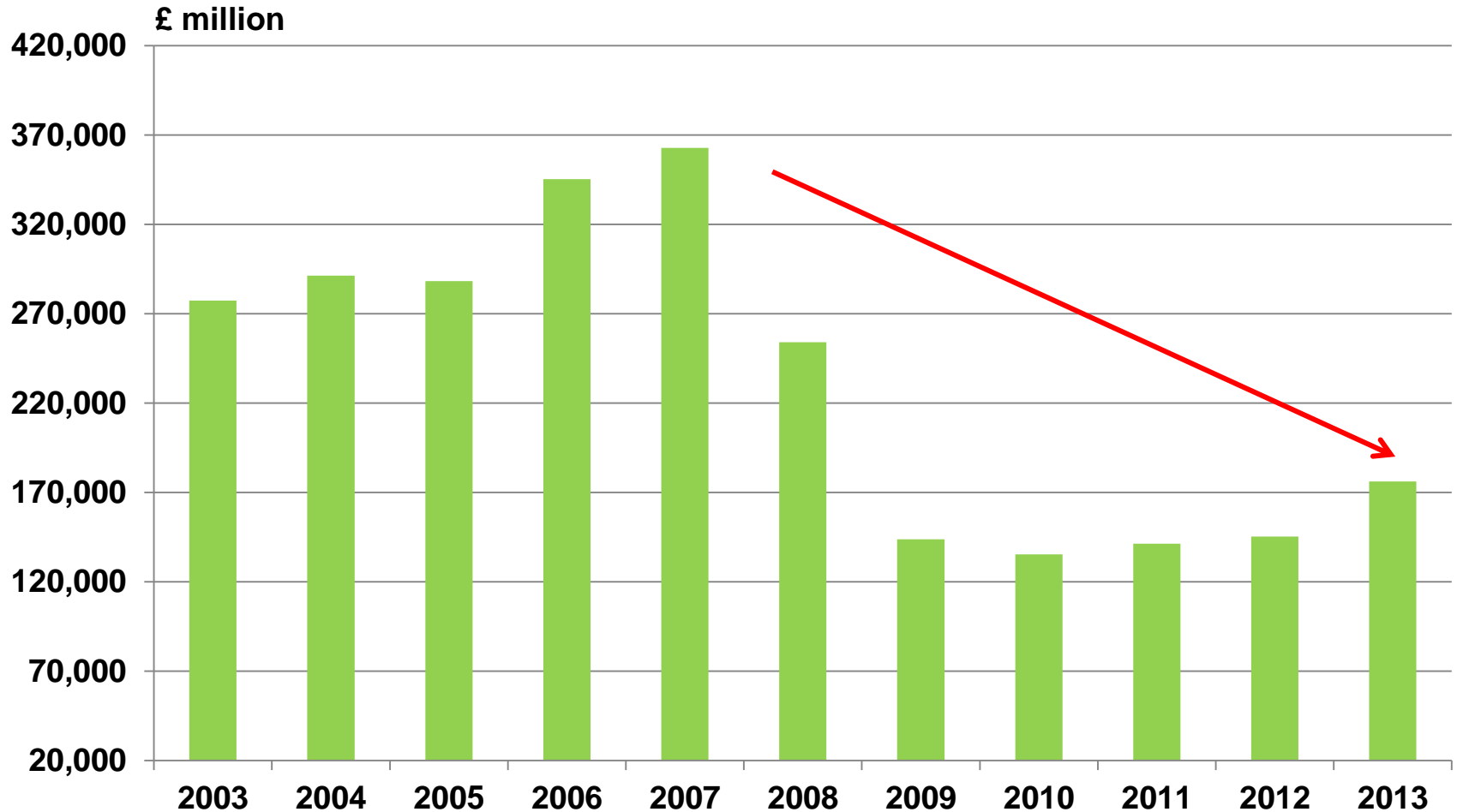


Source: DCLG

UK Gross Mortgage Lending (Q3 2011 to Q3 2014)



UK Gross Mortgage Lending (2003 to 2013)



Other Sectors

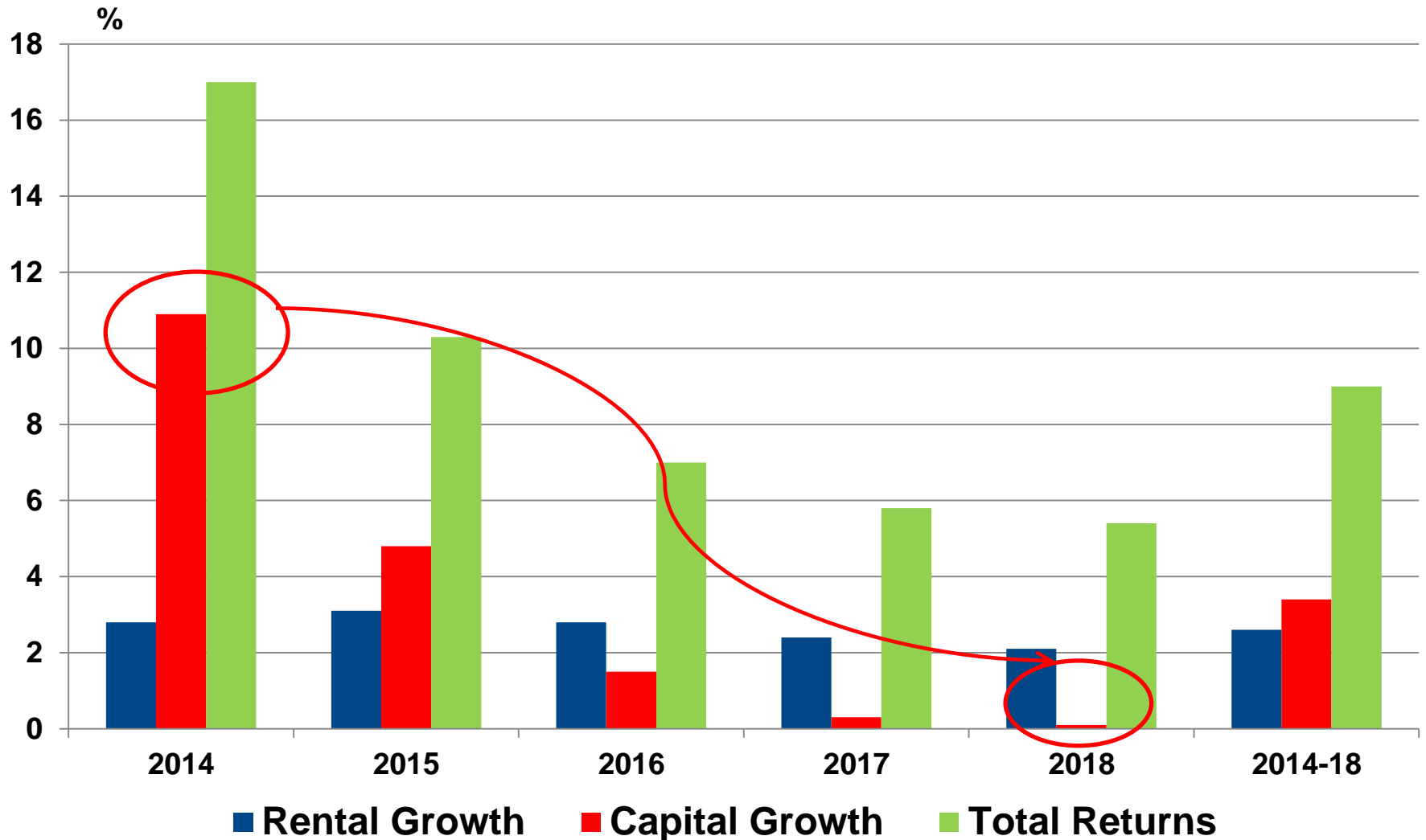


Looking to the Future.....



Steve Mallen

IPF Commercial Property Forecasts (2014 to 2018)





CULS MARKET TRENDS SEMINAR

Michael Brodtman

Head of Valuation & Advisory

Thursday 13th November 2014

NOVEMBER 2013 PREDICTIONS; Were They Right?

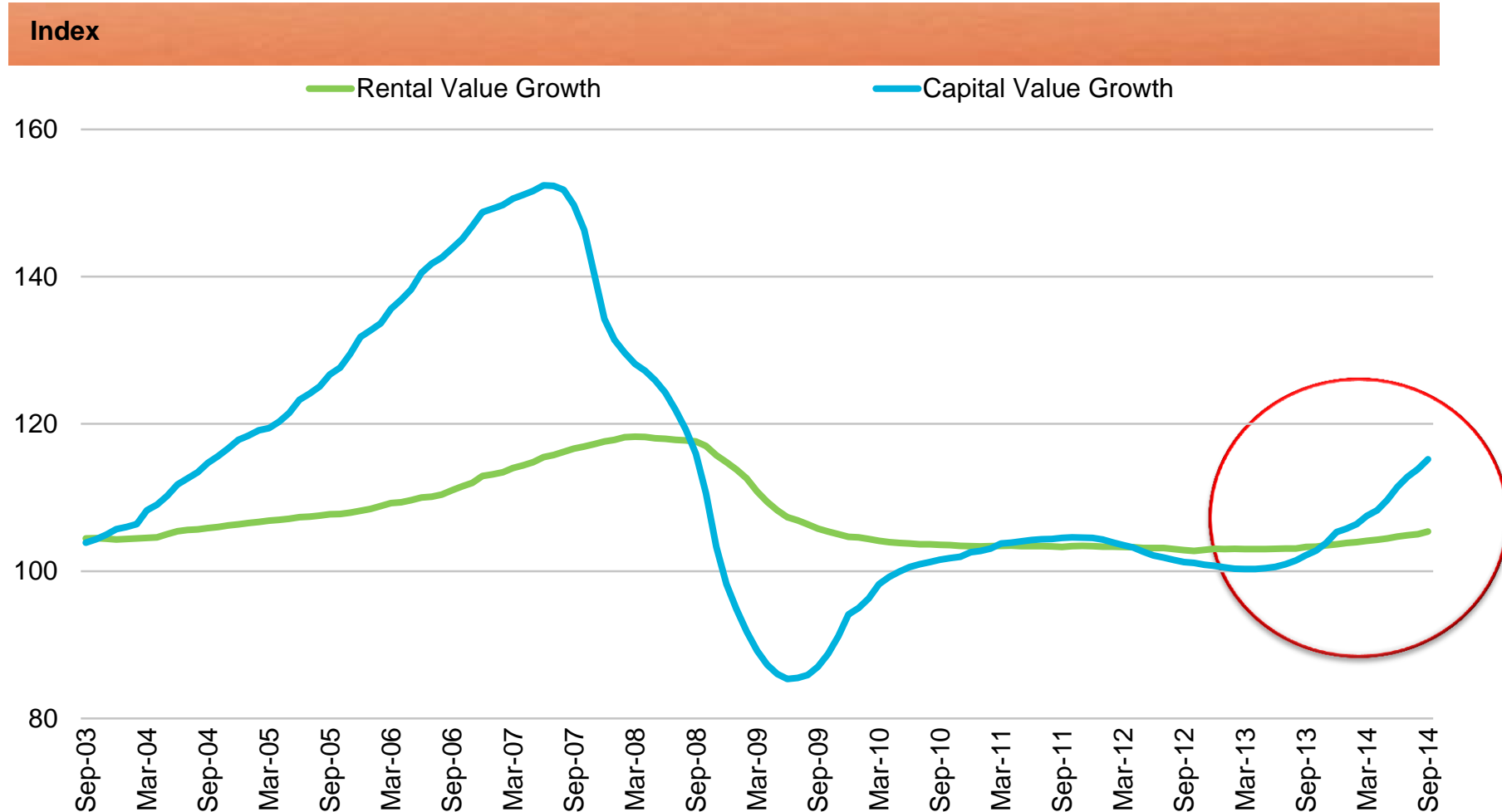
“

- Occupier markets stabilising in improving economy
- Positive fund allocations and improving debt market
- 30% improvement in investment volumes leading to lower yields
- Growing interest in alternatives
- Strong momentum for 2014

”

UK ALL PROPERTY RENTAL AND CAPITAL VALUE GROWTH

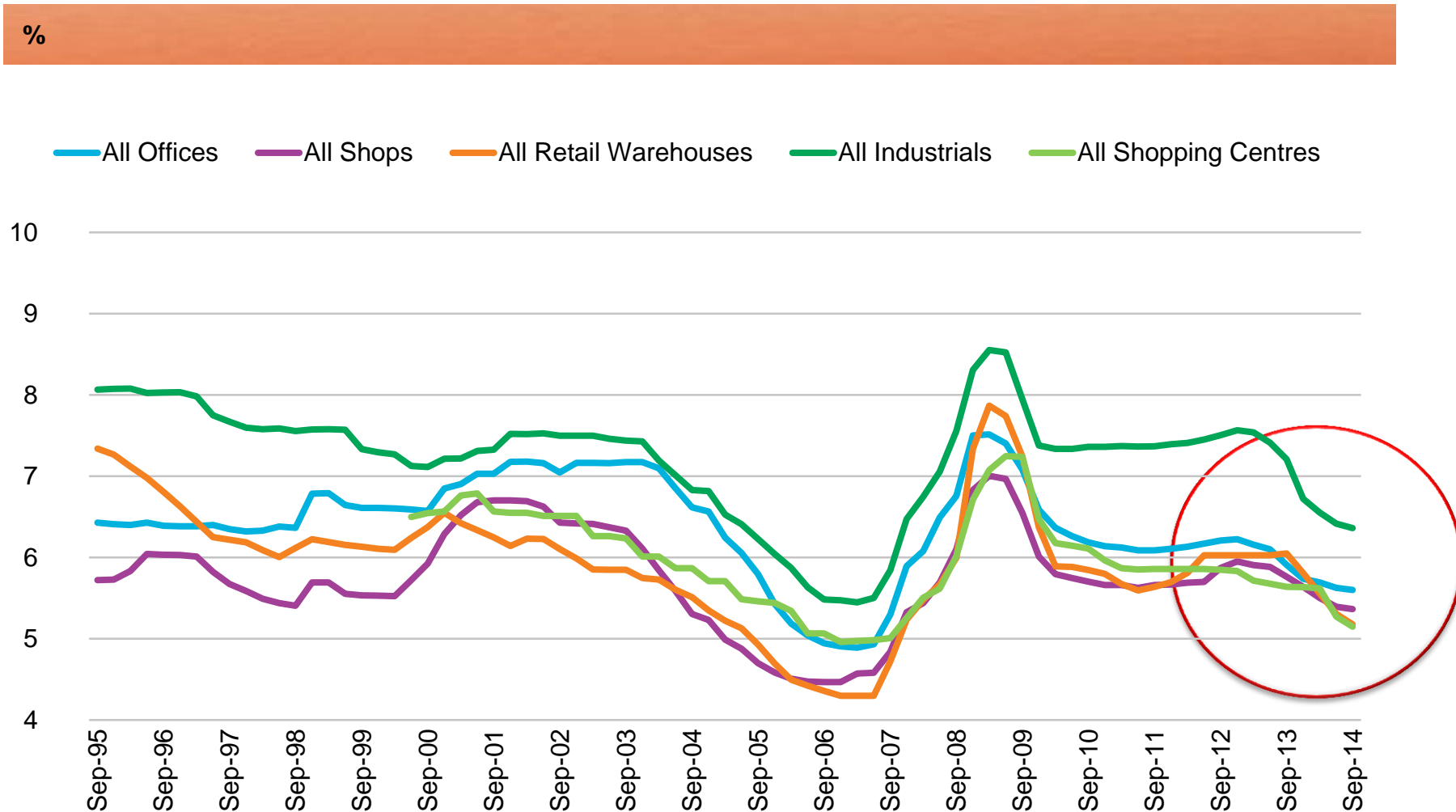
CBRE Monthly Index rebased to Dec - 99



Source: CBRE Monthly Index

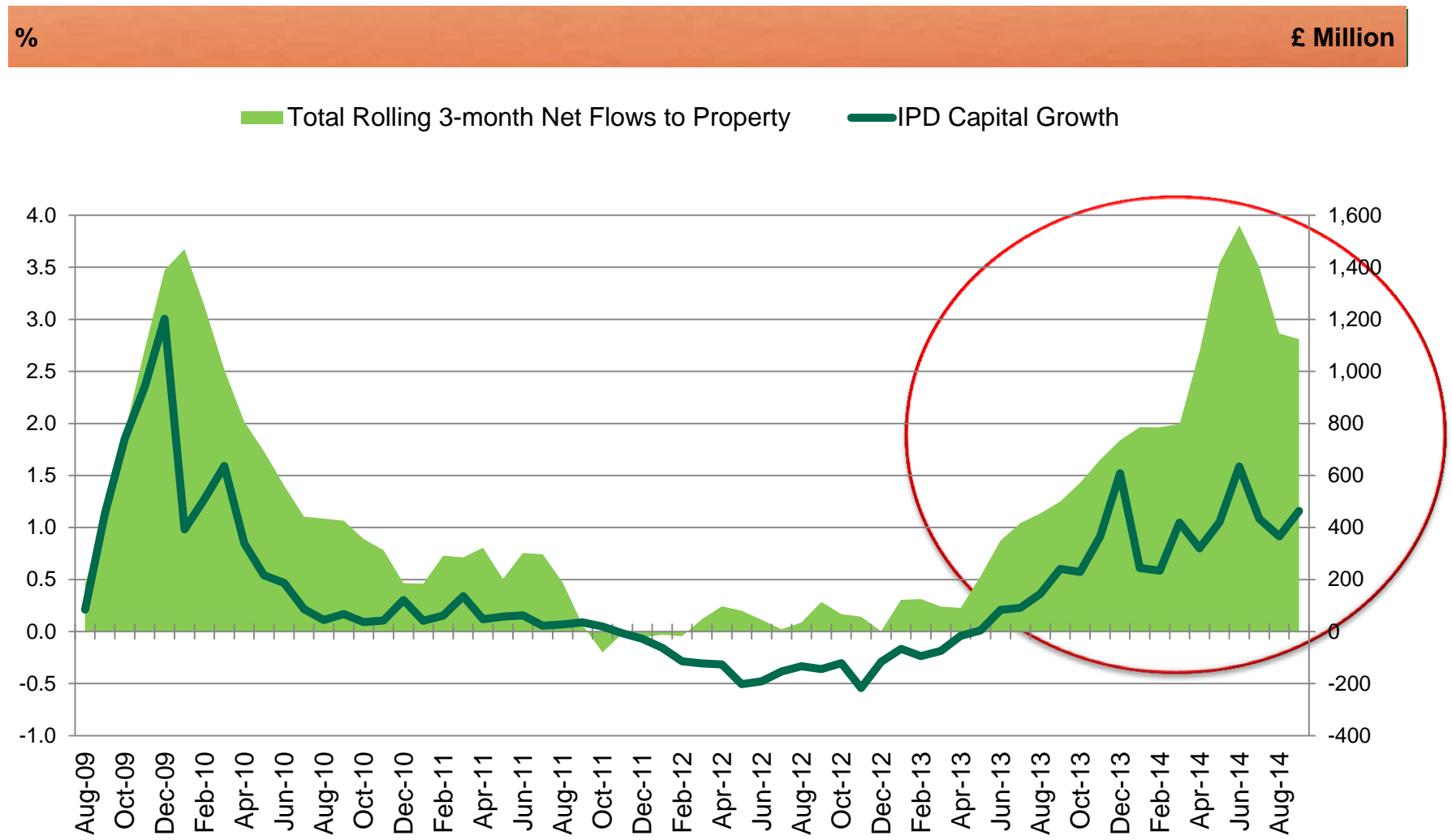


UK AVERAGE PRIME YIELDS AT ALL TIME LOWS



Source: CBRE Prime Rent and Yield Index

STRONG NET FLOWS TO PROPERTY UNIT TRUSTS

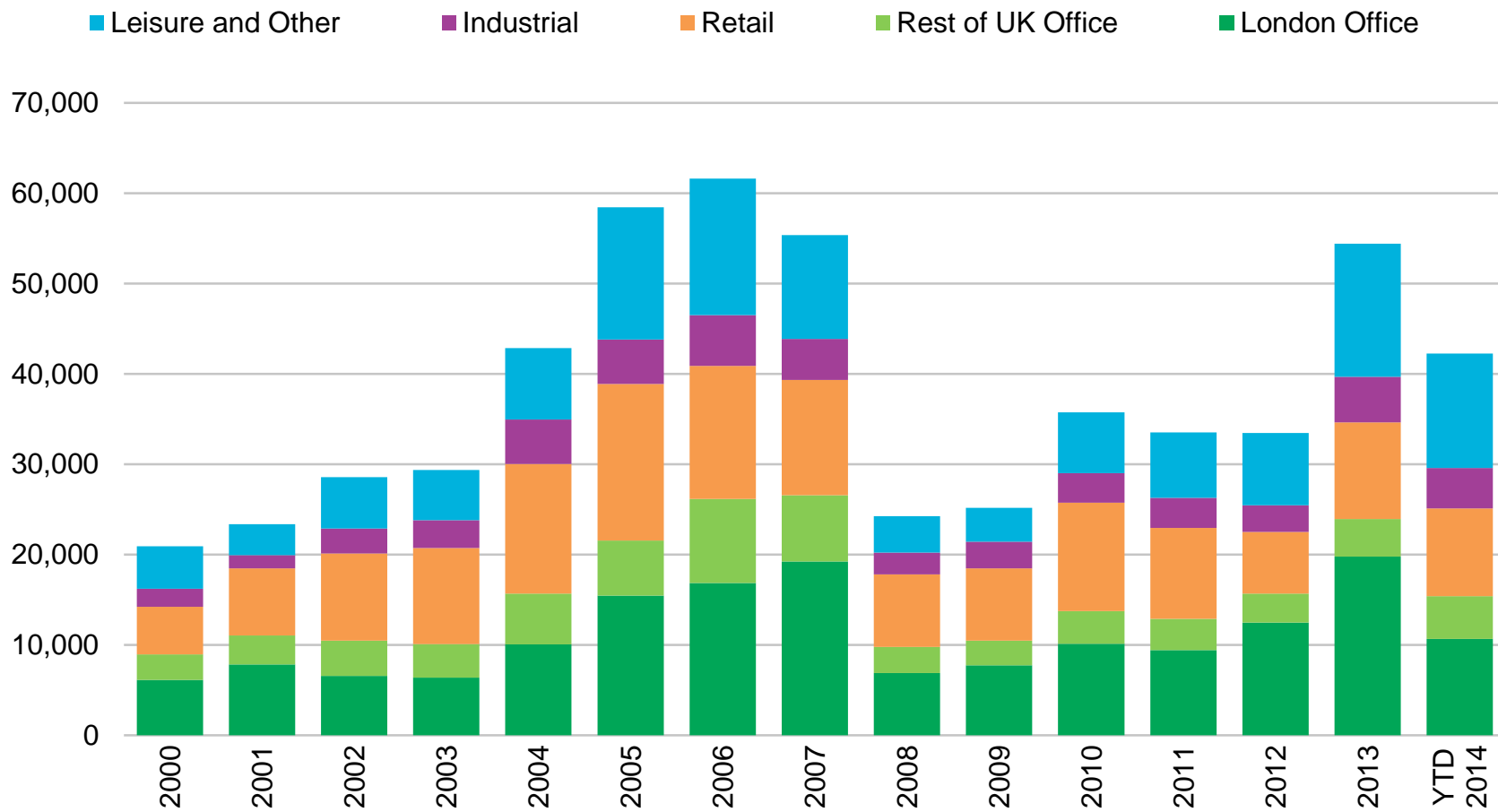


Source: IMA/IPD Monthly Index

RECORD CRE INVESTMENT IN THE UK

By sector

£ Million



Source: CBRE/Property Data



SUMMER OF LANDMARK DEALS



30%, £656m, 4.25%



– Bond Street

£318m, £850 ITZA, 2.5%



–



£381m, 65%, 43 Mayfair Buildings , c2.5%

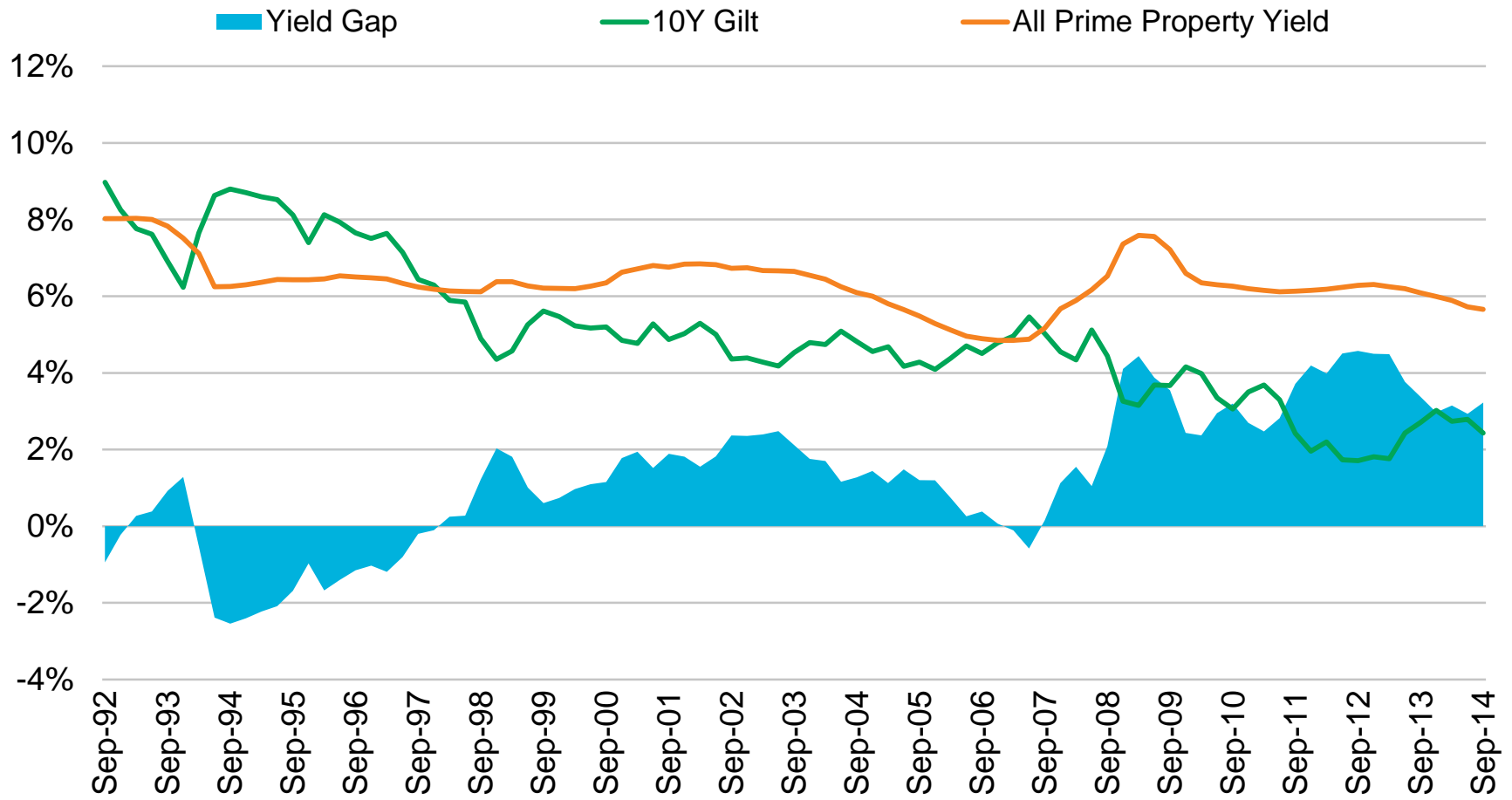
JOSEPH SAFRA –



c£720m, 3.9%, 11yr
WAULT

PROPERTY'S POSITIVE YIELD GAP

%



KEY THEMES FOR 2015

- London as a global magnet
- Rerating of all property, especially prime
- Rental growth spreading out from London
- Transformed landscape for debt
- Sustained economic recovery and investment demand will override political uncertainty

CULLS Market Trends Panel

Robert H H Peto: DTZ Investors
Thursday 13th November 2014



transforming the world
of property services

Questions Raised in November 2013 Seminar

What has Changed?

TRENDS

- Improving Economic environment
- Weight of money – Yield Advantage, Safe Haven, Pension Auto enrolment.
- Secondary Property Yield Compression
- Loosening of debt scarcity
- London v. Regions
- Government Policy support for demand side on Residential

ISSUES

- Interest Rates – purchase yields and “trailing yields” – Fair Value
 - Inflation/deflation
 - The wrong type of inflation – Excessive real Wage Growth
 - Economic Fragility and impact on Occupier Demand
 - “Events, Dear Boy, Events!”
 - London v. Regions
 - Property Supply Side – Capacity and Pricing

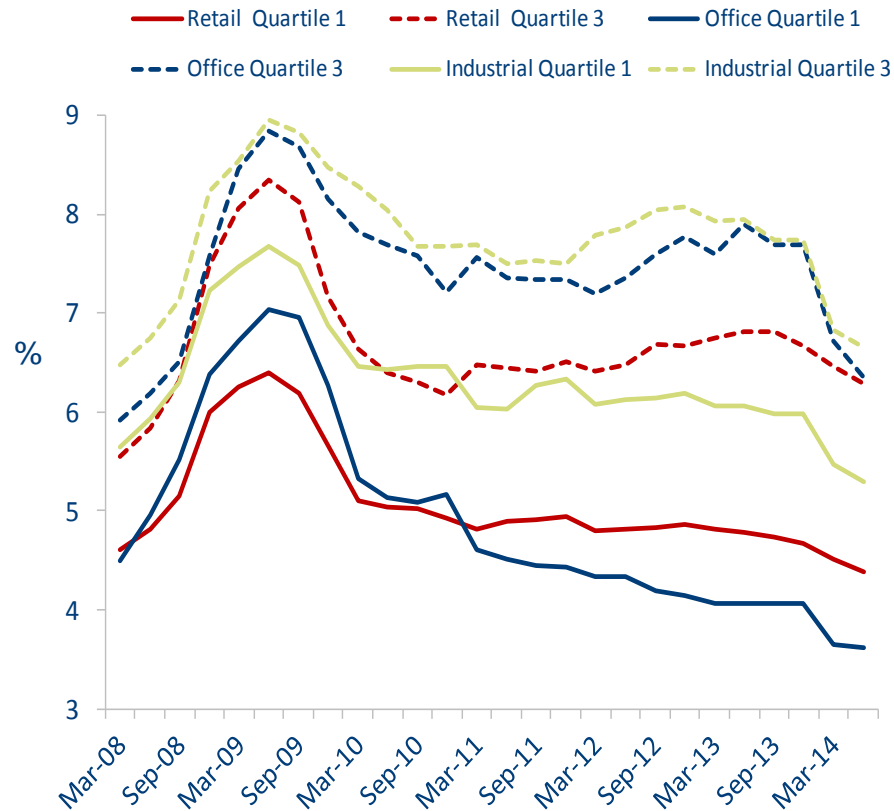
OUTCOME

- ?

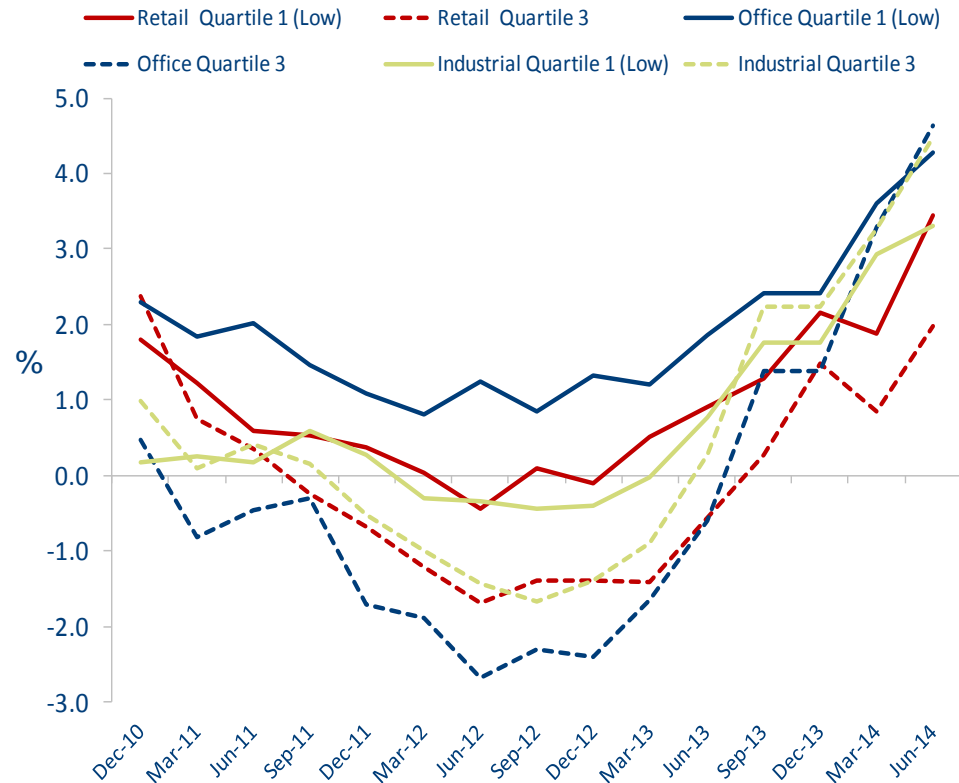
As a consequence, investors have moved up the risk curve in search for value, resulting in strong bidding on secondary properties.

Property Market Review: IPD yields and capital growth prime vs. secondary

Prime vs. secondary IPD initial yields



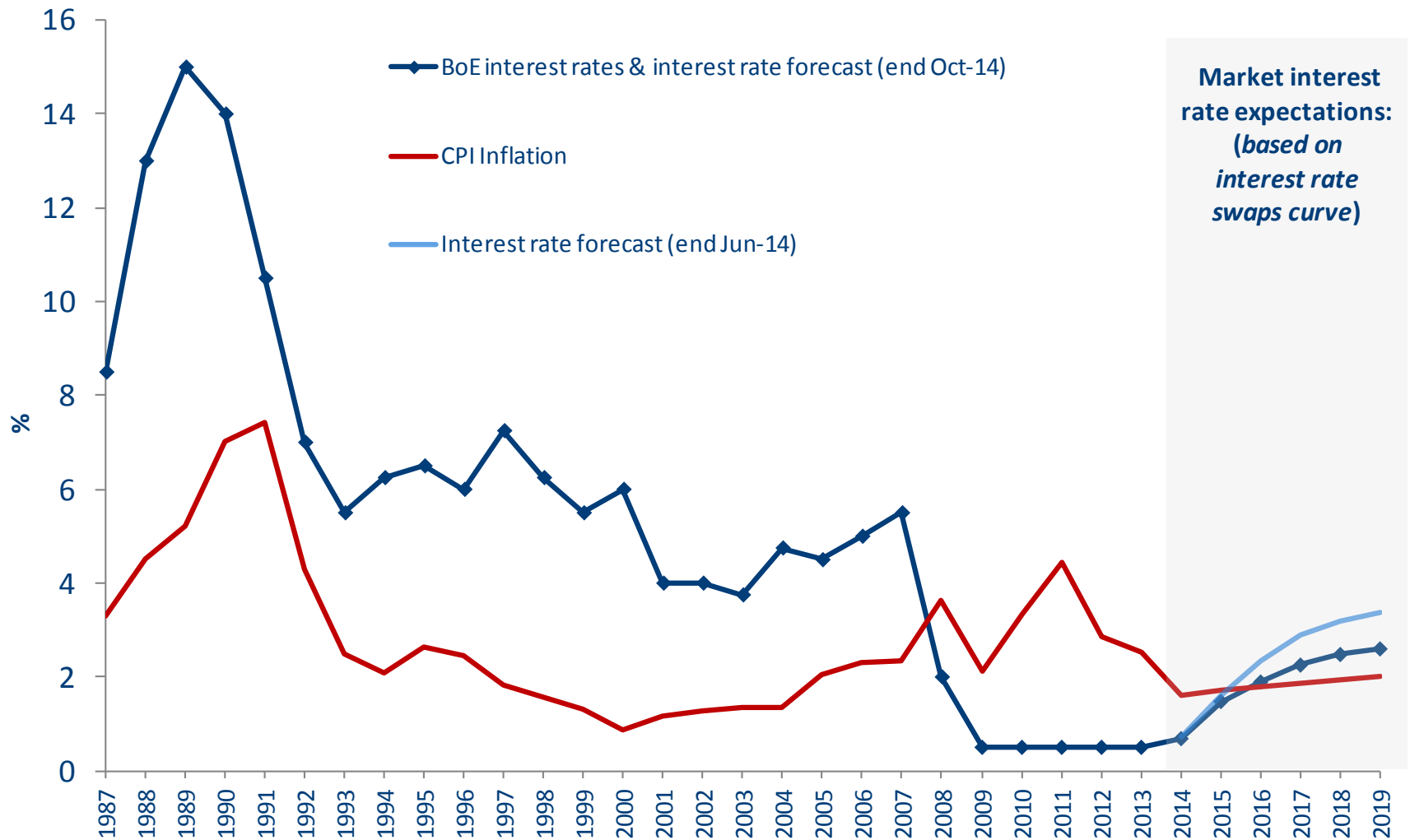
Prime vs. secondary IPD Capital Growth



Source: IPD

Continued uncertainty, slowed global growth and limited upward inflationary pressures have shaped markets expectations of lower interest rates for longer.

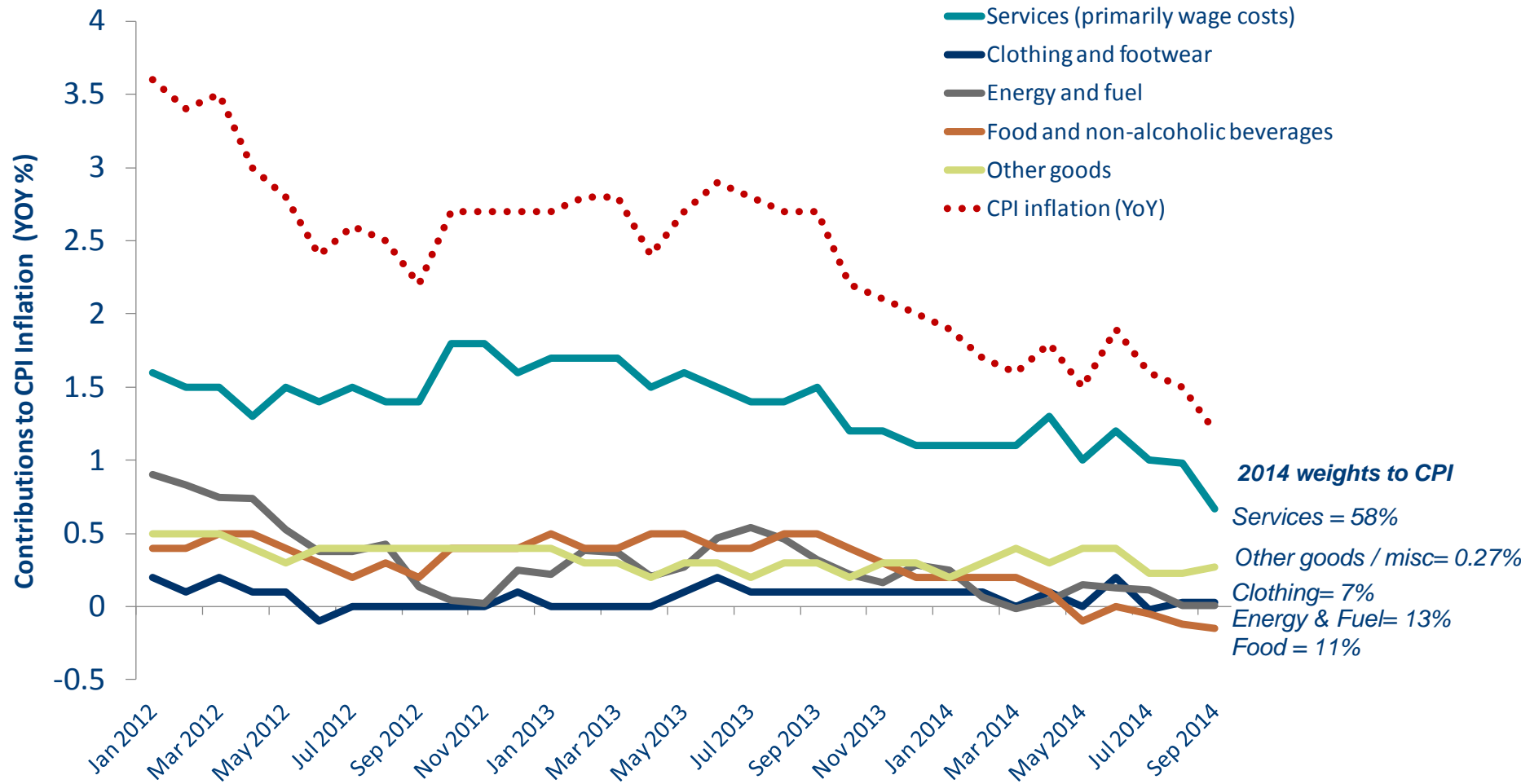
UK inflation and interest rate outlook



Source Bloomberg, Oxford Economics, FT, PMA

Reduced inflationary pressures both externally and domestically have benefitted UK households over the last two years.

External and internal inflationary pressures

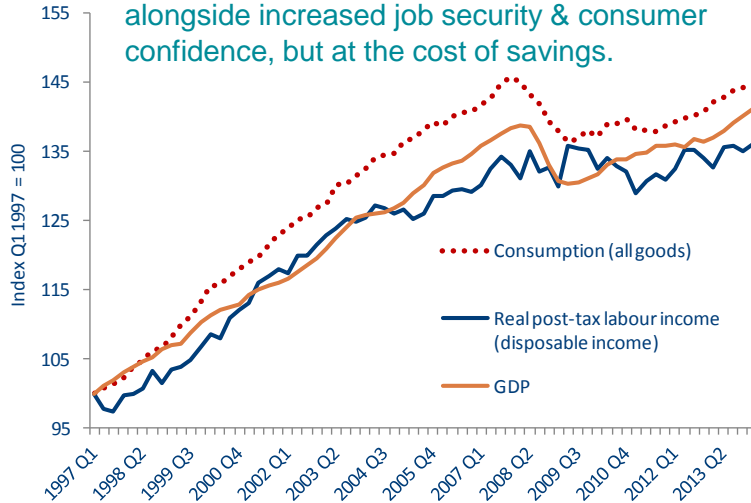


Source: ONS

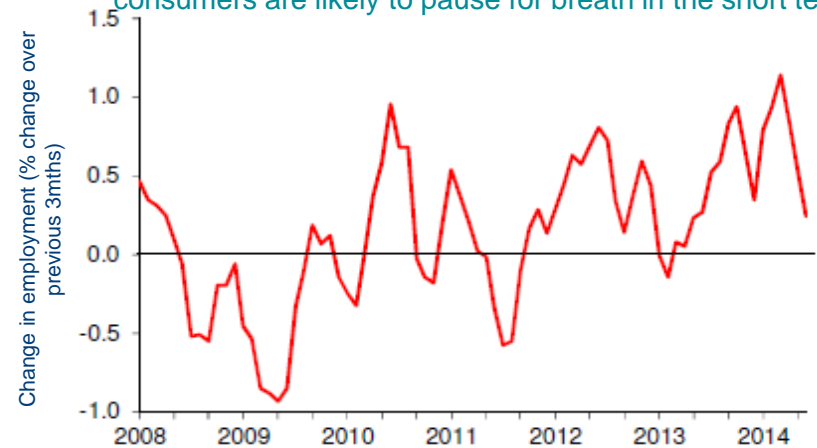
Domestic growth has been strong and more balanced, but there are signs that demand particularly from the consumer sector may moderate in the short term.

Domestic economy

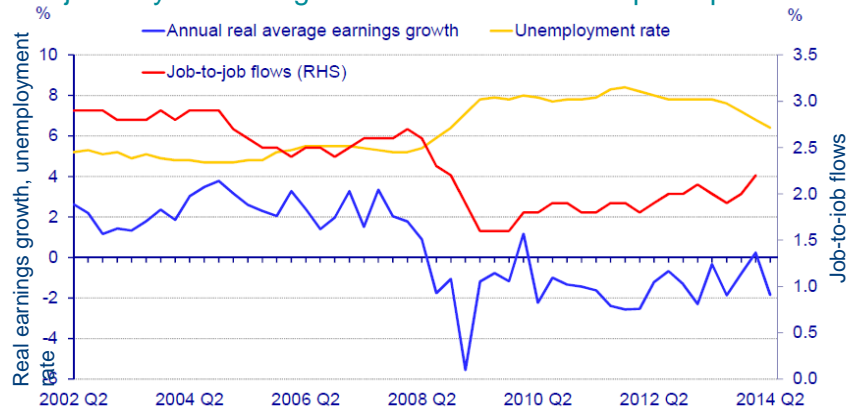
Consumers willingness to spend has improved alongside increased job security & consumer confidence, but at the cost of savings.



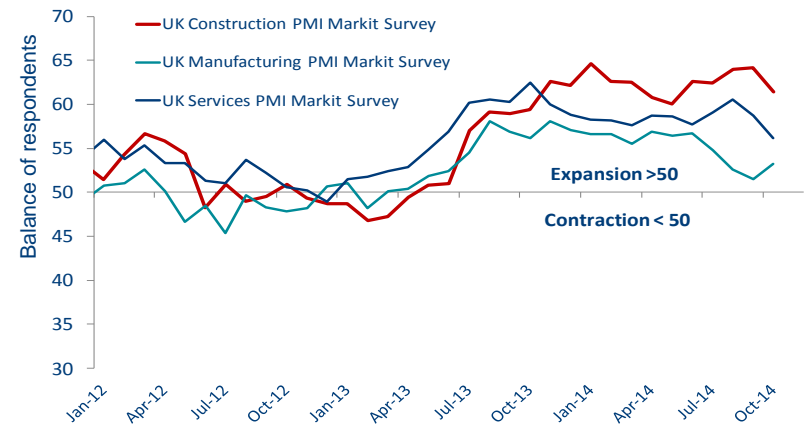
However will this continue? The rapid pace of employment growth is showing signs of abating which may mean that consumers are likely to pause for breath in the short term.



Continued slack in the labour market and marginal rises in job-to job may mean wage inflation will be slow to pick up.



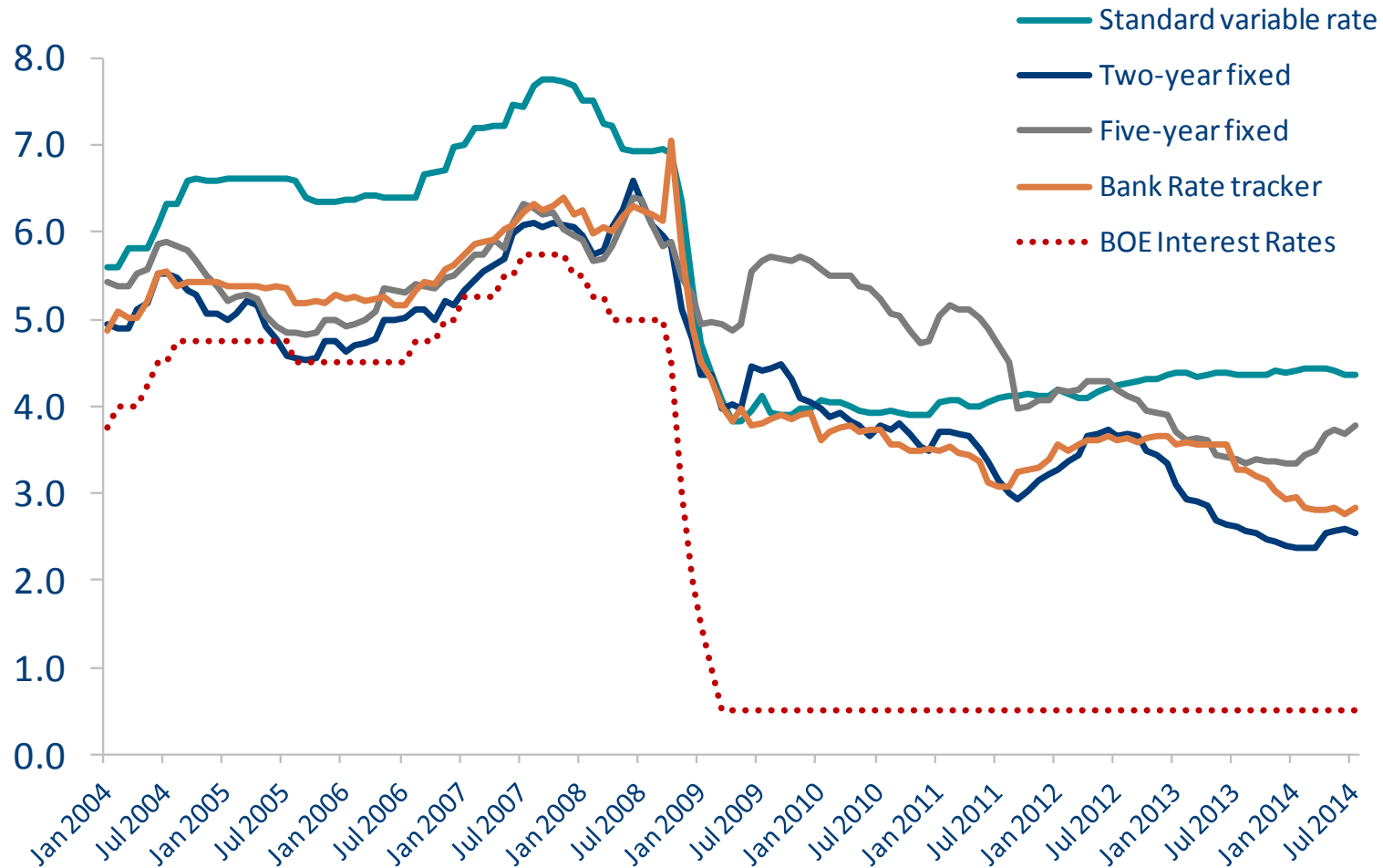
Sentiment surveys are also starting to weaken signalling slower economic growth in the short term.



Source Bloomberg, ONS, Oxford Economics

The wide margin between fixed and variable rates and the Bank of England rate suggests that further interest rate hikes may not automatically be passed onto new mortgages.

Bank of England Interest Rates vs. mortgage interest rates



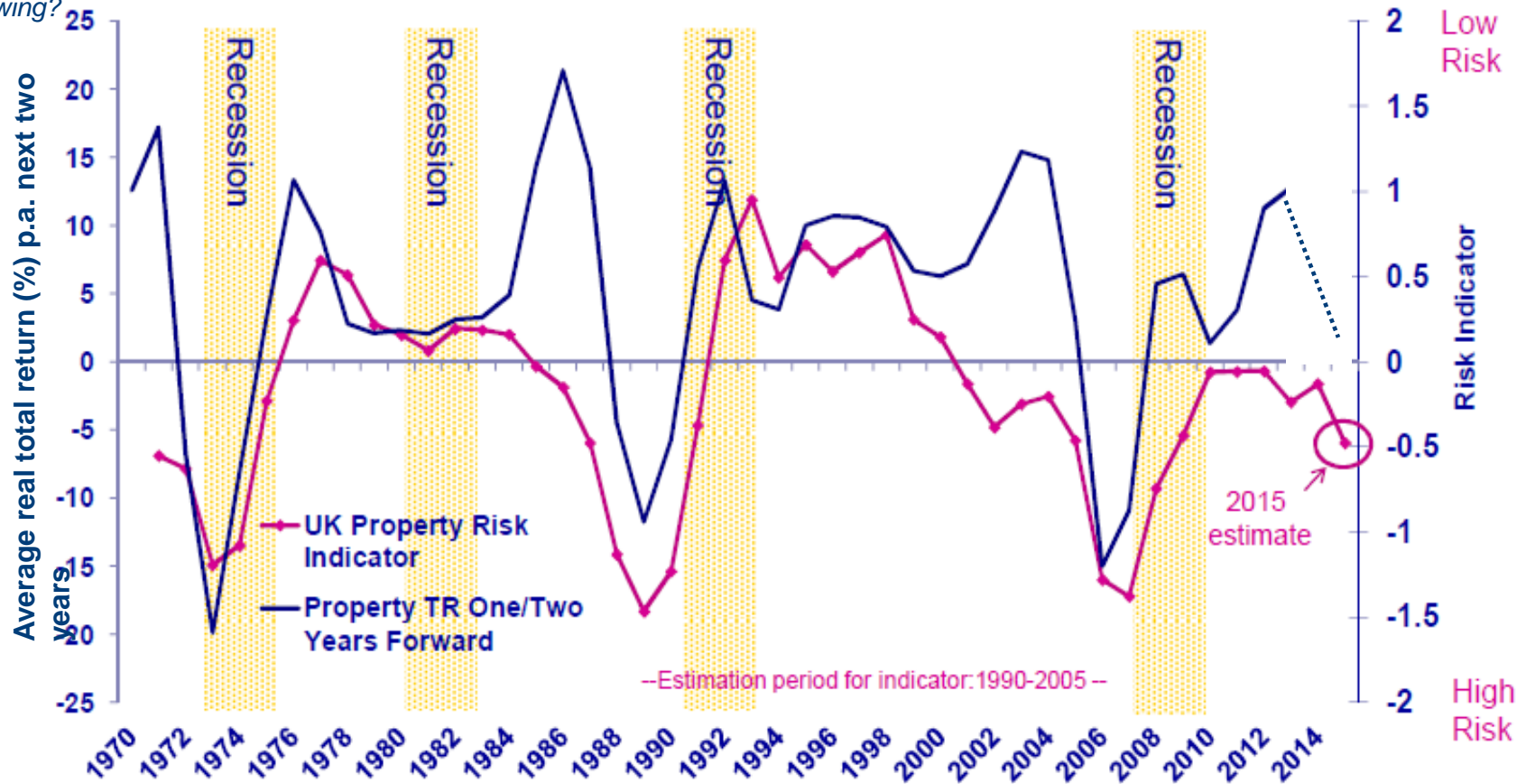
Source: Bank of England

PMA's UK property risk indicator (which accounts for residential house prices, amongst other things), suggest weaker property returns over the next two years.

Is a pricing bubble forming? PMA Property Risk Indicator

PMA Risk indicator is a good lead indicator of property recessions and includes the following measures:

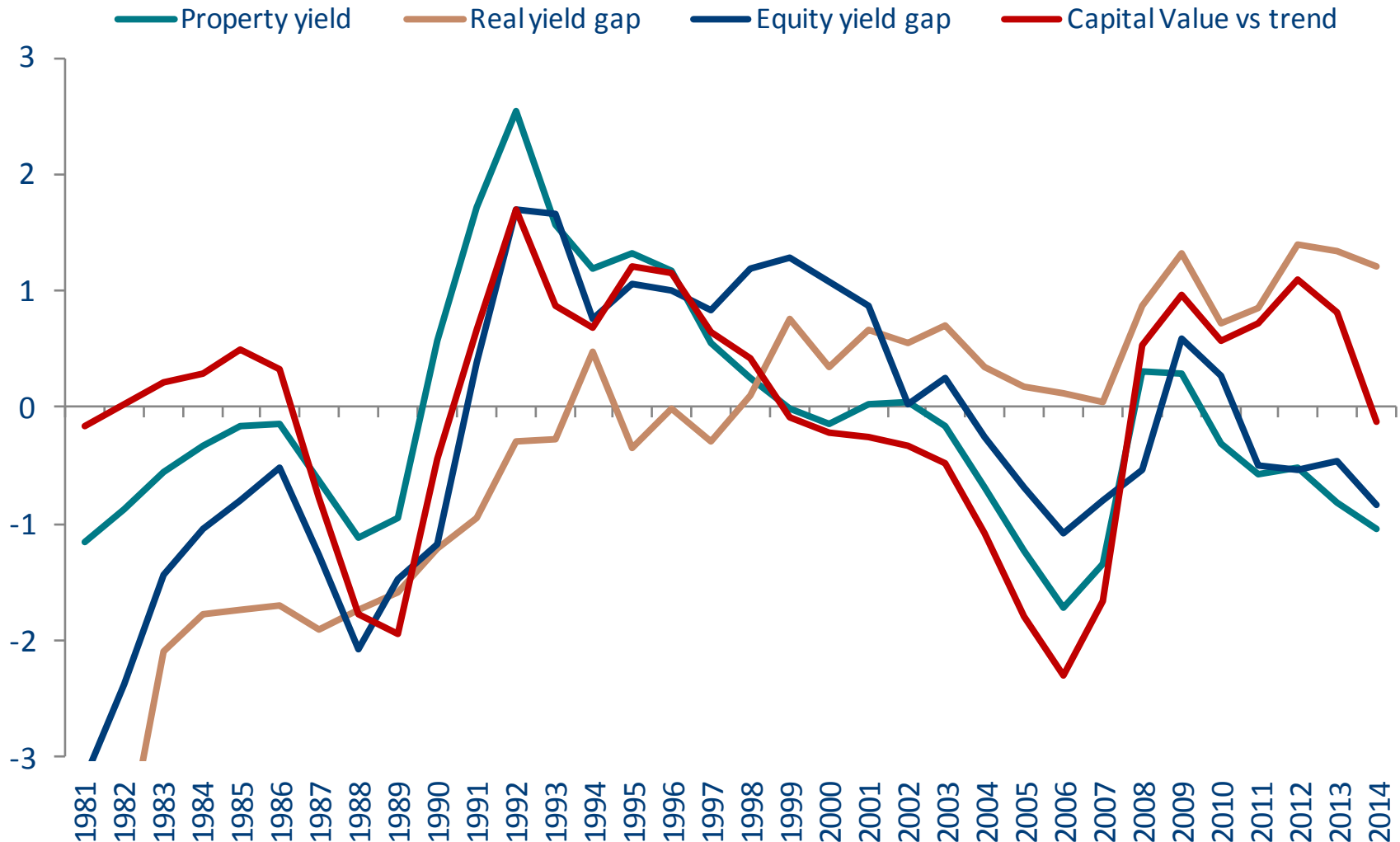
- **Commercial property pricing** – relative to its long term trend and other asset classes.
- **Commercial property development activity** – is development activity running at unusually high levels?
- **Commercial property lending** – is lending on property at high levels relative to overall lending?
- **Housing** - are similar factors observed in the housing market with a knock on effect on consumer spending and borrowing?



Source: PMA

Commercial property looks attractively priced against most bond metrics, fair value against its own history but expensive against equities.

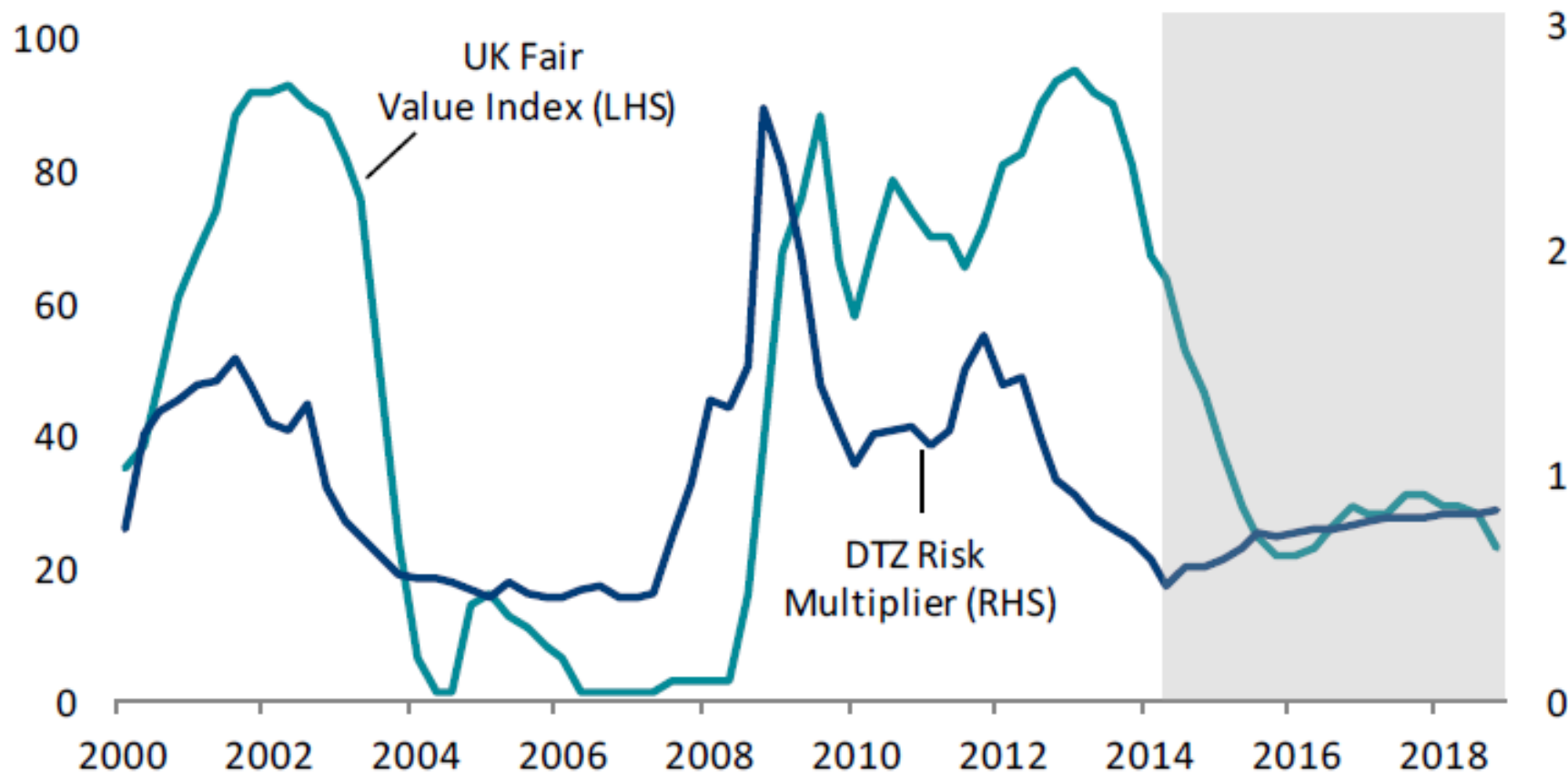
Is a commercial pricing bubble forming? Property pricing against other asset classes and itself



Source: PMA

UK Commercial Property looks attractive and risks near a record low

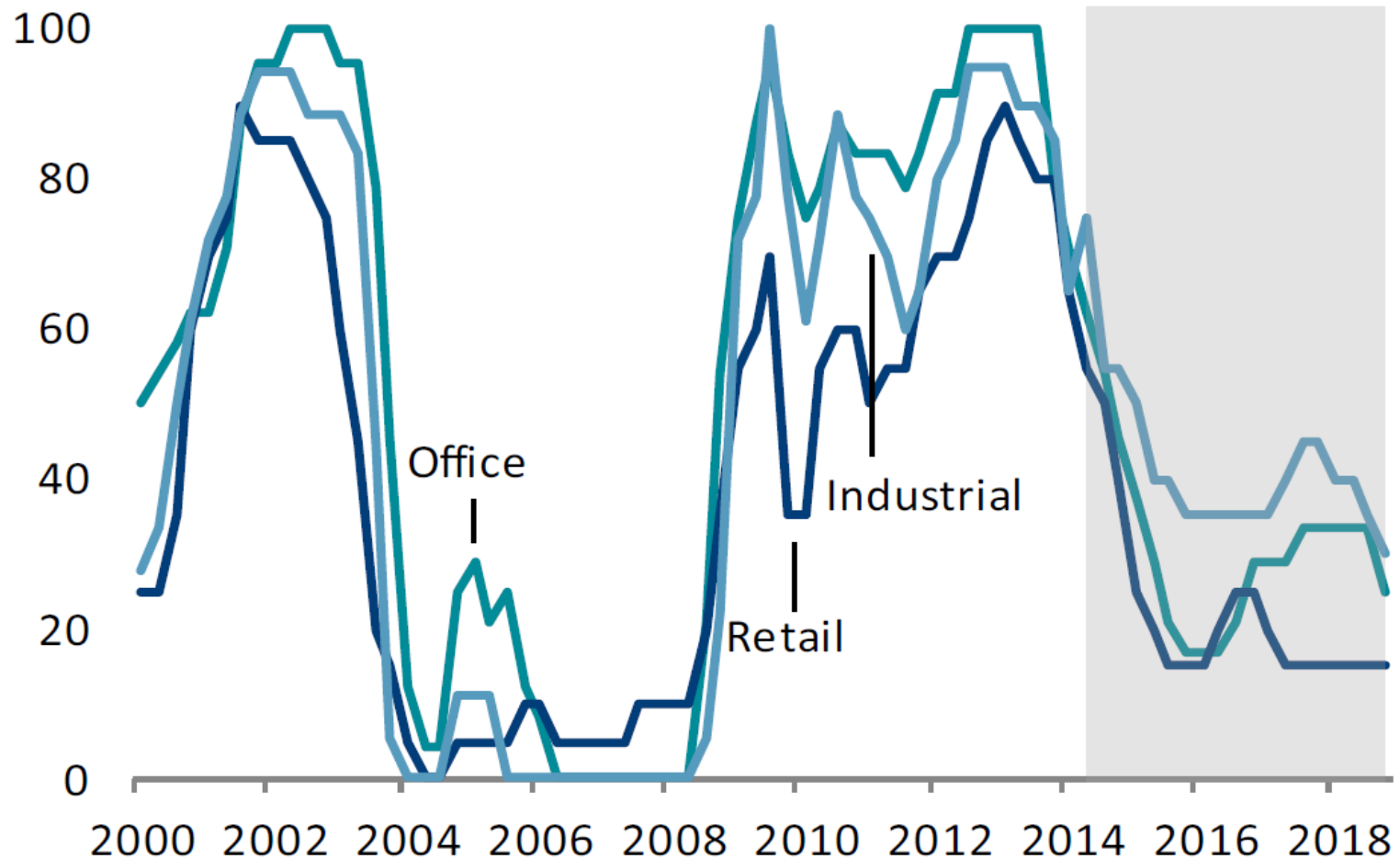
DTZ Fair Value Index and Risk Multiplier



Source: DTZ Research

Looking forward we expect the office and retail fair value index scores to fall more sharply and industrial property to remain the most attractive sector over the next five years.

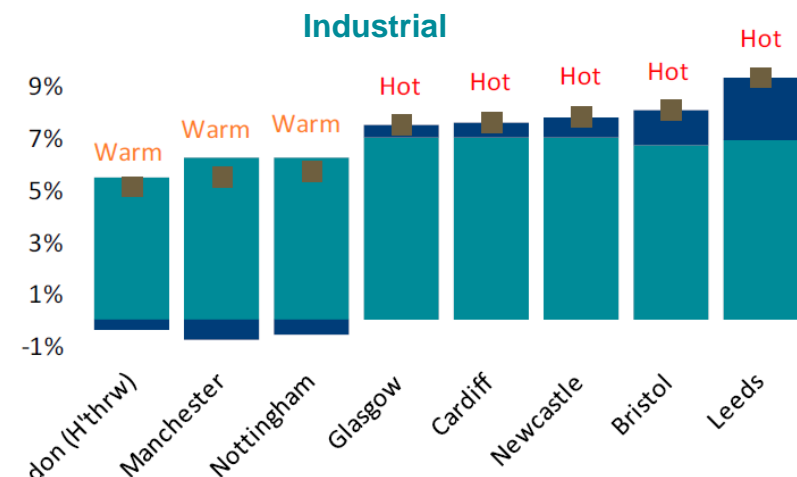
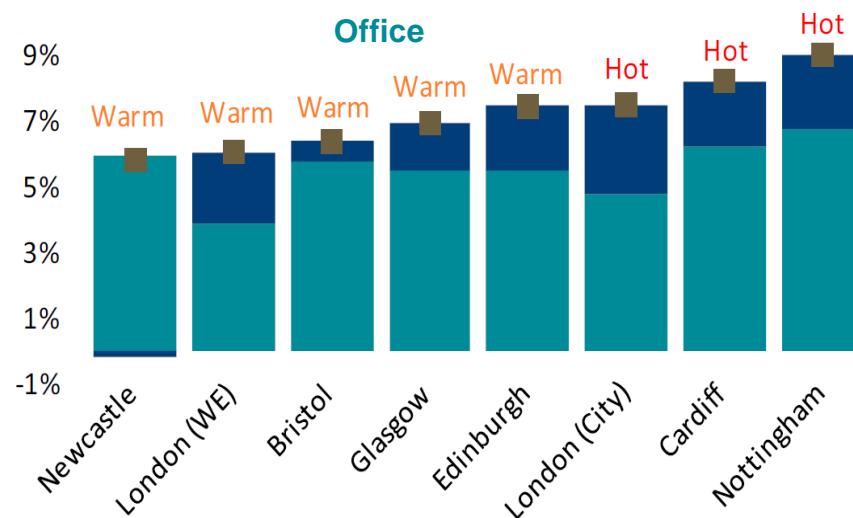
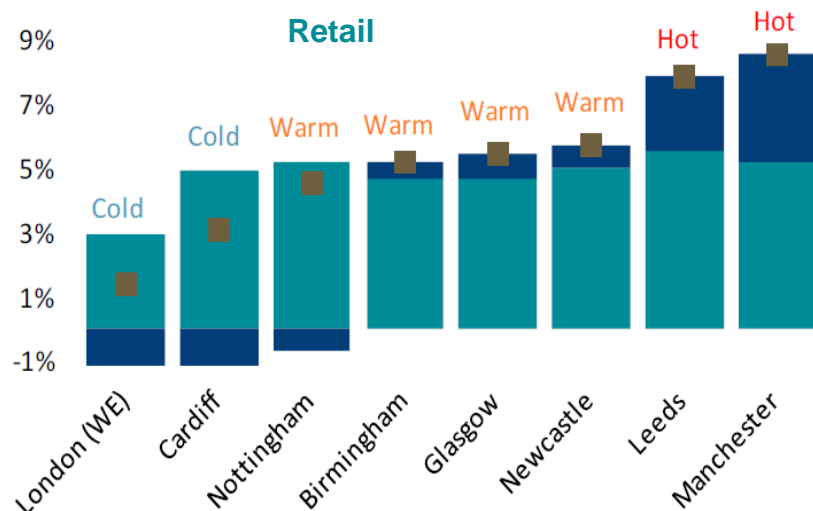
DTZ Fair Value Index projections by sector



Source: DTZ Research

Total Return and Fair Value Classifications by sector and across UK regions

Total Return and Fair Value Classifications – by sector

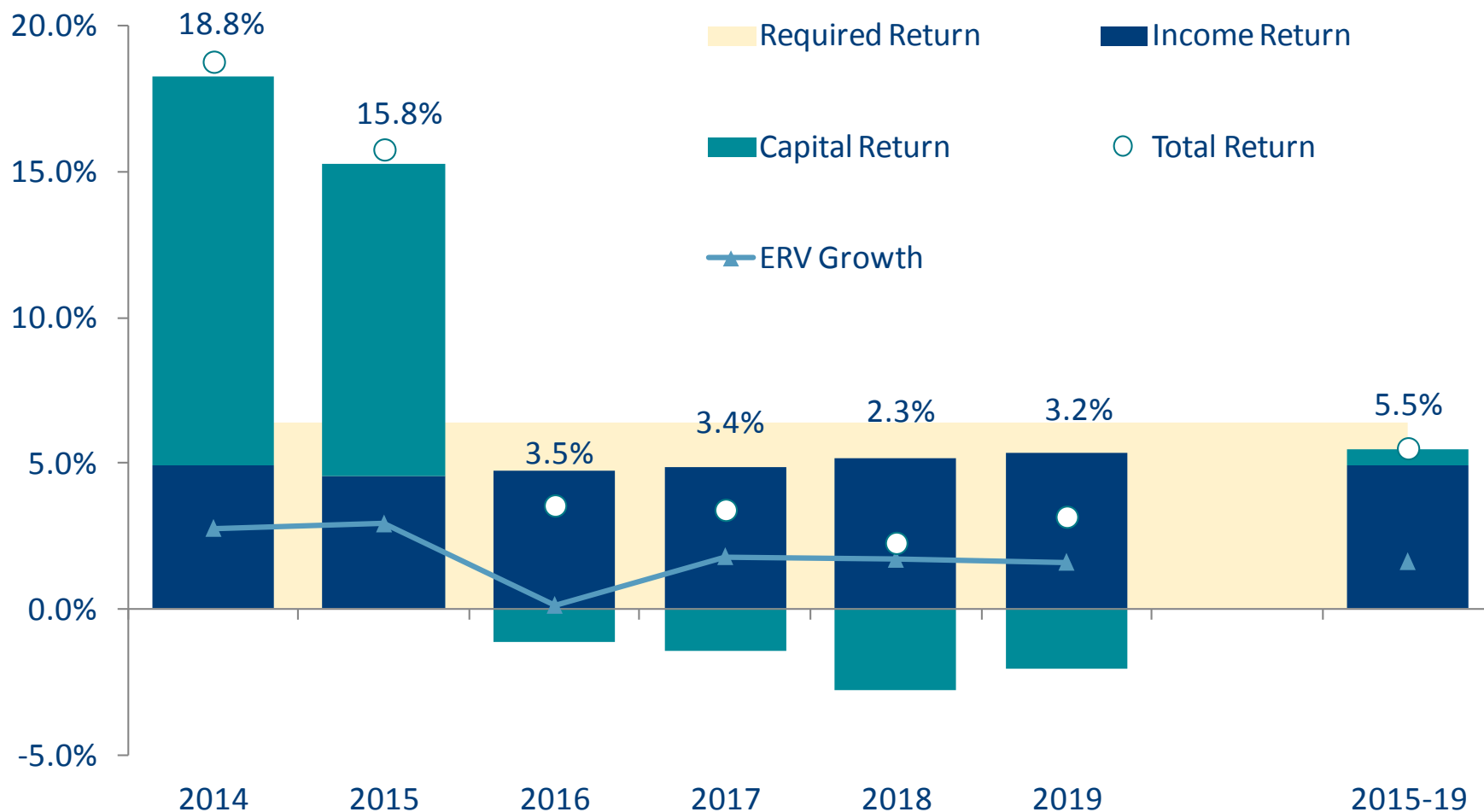


■ Income Returns (% p.a.) ■ Capital growth (% p.a.) ■ Total Returns (% p.a.)

Source: DTZ Research

Our longer term forecasts suggest continued strong investment sentiment in the short term and lower income dominant returns post 2015.

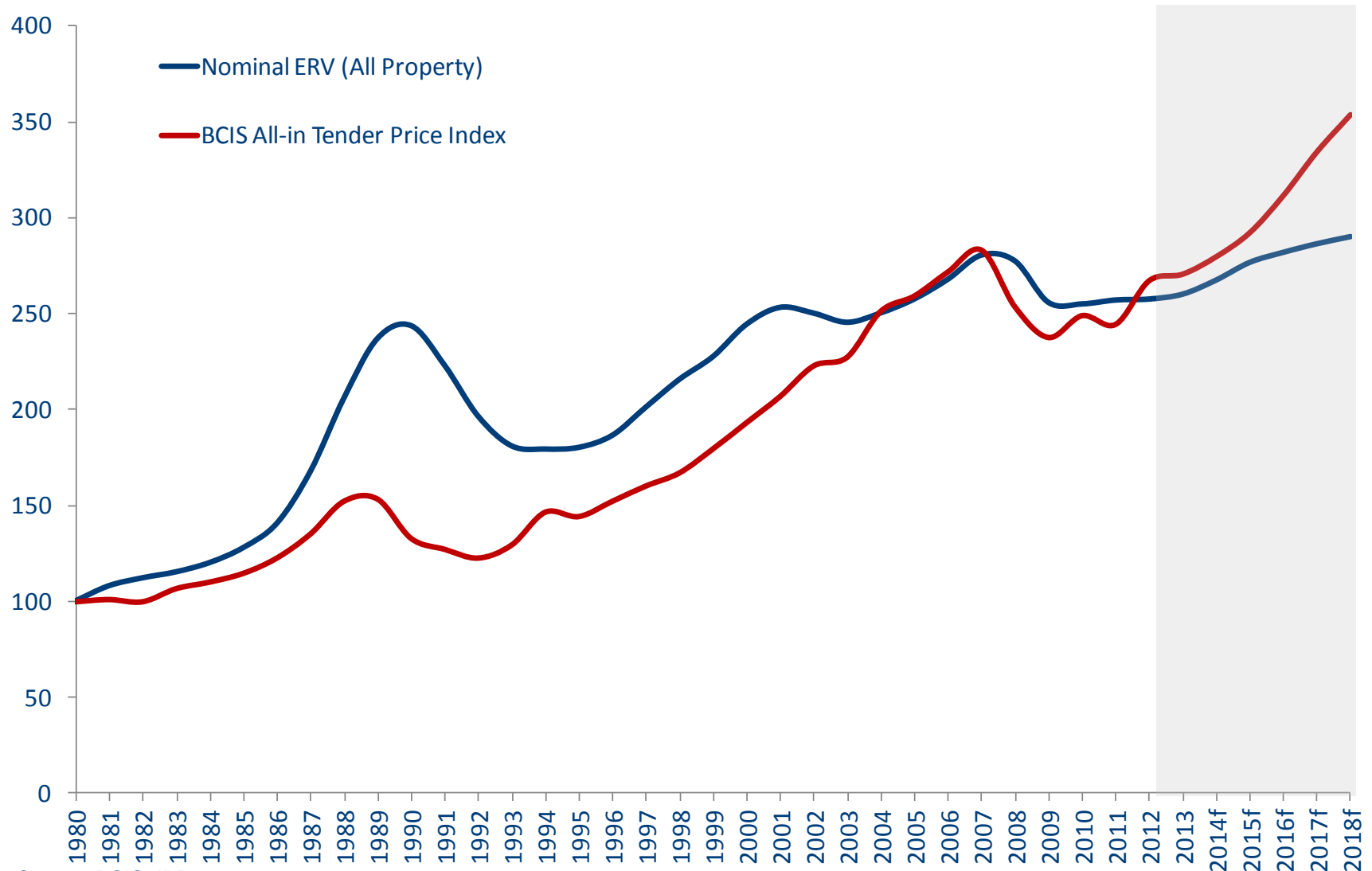
DTZ IM All Property Forecasts



Source: DTZ Investors

With building costs anticipated to surpass ERV growth for all property over the next five years this will further dampen new supply in the short run.

Index of Construction Tender Prices BCIS



Source: BCIS, IPD



GE Capital Real Estate

Mike Bryant – European CRO

Imagination at work

Europe



Ellen Brunsberg

President,
GE Capital Real Estate,
Europe

Snapshot

11.2 

2Q'14 total
assets (\$B)

33 

million square feet
of owned real estate *


27

years of experience
in Europe

290 

Professionals across
Europe, including 36
JVs

Who we are

We offer real estate financing solutions in key markets and we also have a significant real estate owned portfolio that we manage. We maintain relationships with real estate investors, developers and brokers in the United Kingdom, France, Germany, The Nordics, Spain, Italy, Central and Eastern Europe.

What we do

- ☐ Asset management of our real estate owned portfolio to maximize value
- ☐ Asset / loan management of our property loan book to protect principal
- ☐ Flexible debt offer in key markets on both traditional (office, retail, industrial) and also niche property types

Key Themes - Direct Market

- ❑ Investment market vs occupier market
- ❑ Improving debt supply
- ❑ UK: growing appetite for secondary
- ❑ Germany: increasing overseas investor interest
- ❑ France: Ile de France vs Paris core
- ❑ Spain: strong appetite
- ❑ Italy: NPL markets attracting interest

Key Themes - Lending Market

- ☐ Improving debt supply
- ☐ More regulation for banks
- ☐ Margins under pressure
- ☐ Loan terms under pressure: amount & structure
- ☐ Creditor landscape
- ☐ Cross border deals

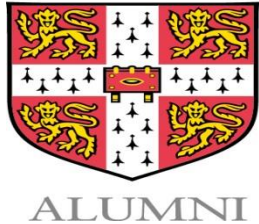
Questions.....?



Cambridge University Land Society



Thank you.....



Cambridge University
Land Society

