

Quizzical Insights

After Bull's disappointing showing in the annual Boost Charitable Trust quiz, Bull & Bear dissect the performance of the UK property market and, of course, the England rugby team.

Bear: How did you get on at the annual Boost Charitable Trust pub quiz last night? You were talking such a good game last week, I thought I'd find you swigging champagne at the bar and waiving the trophy about.

Bull: Huh. We were robbed, Bear. Plain and simple. My team were leading by a clear 3 points at the halfway stage and somehow contrived to come second. Either the quiz master took a Lindsay Hoyle type approach to the rules and changed the marking system, or there was some Google-related skulduggery from the opposition. The winning team did seem to take an awful lot of 'bathroom breaks' in the second half, if you get my drift.

Bear: Oh dear, Bull. This sounds like a serious case of sour grapes. Second place is pretty respectable.

Bull: I suppose so. If only I'd remembered the new names of the six London Overground lines, we'd have won comfortably. I was up all-night thinking about what could have been.

Bear: Well, I was pleased to see that one of the lines was called 'Lioness', in recognition of the animal kingdom's contribution to the Capital.



Bull: Seriously, Bear? The Lioness line was named in honour of the England women's football team to 'inspire and empower the next generation of women and girls in sport,' not to pay homage to a big cat from Africa. I'm just relieved you weren't on my team. We wouldn't have stood a chance.

Bear: Go on then smart Alec. Hit me with a question?

Bull: Okay. Here's an easy one. Which country in the world has the most islands?

Bear: Err.... Indonesia?

Bull: Wrong! The answer is Sweden with a mind-boggling 267,570 islands. Indonesia doesn't even feature in the top five.

Bear: Ah.

Bull: And, while you are at it, can you tell me the name of the Finnish currency before they adopted the euro in 2002?

Bear: Hmm...the Finnish kronor?

Bull: Nil points, again, Bear! It was the Finnish Markka. Maybe my team's performance last night was rather better than I thought.

Bear: Right. Enough quiz-related distractions, Bull. Our readers want performance-related insights from the property sector, not a general knowledge test.

Bull: Well, in that case, Bear, we'd better dissect the MSCI UK Quarterly Index results for December 2023. There's some interesting stuff in there when you look underneath the headlines.

Bear: You are spoiling me, Bull! There is nothing more therapeutic on a Sunday morning than doing a deep dive into a set of quarterly index results. Still, if we are going to focus on performance, I'm not sure how you are going to be able to sugar-coat a twelve-month total return for the sector of -1.0%. Property has now delivered negative total returns for the last five quarters in a row.

Bull: What happened to 'Optimistic Bear'? Weren't you ticked off by the Alliance Board for promoting unacceptably bullish opinions last week?

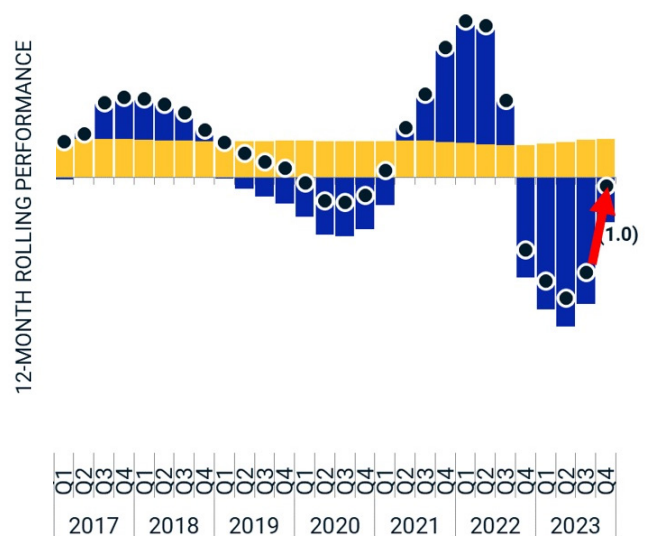


Bear: That was just a momentary rush of blood to the head, Bull. Unfortunately, the statistics don't lie. The fact is that capital growth declined across the board in Q4 2023 and even the improving income returns couldn't drag us into positive territory for the quarter.

Bull: It's easy to be gloomy if you look backwards, Bear. Take the wider UK economy for example. We were technically in recession in H2 2023, but the Governor of the Bank of England came out this week to say that there are distinct signs of an upturn. In other words, the UK recession is probably over before we even realised we were in one. And, whilst the annualised property return remained marginally negative, the trend is most certainly upwards.

Bear: Okay. I'll accept that the annualised total return of -1.0% for Q4 2023 is better than the -15.3% delivered back in Q2 2023. But, I'm still not sure we want to be shouting about it from the rooftops.

MSCI UK Quarterly Property Index 12-month returns



Source: MSCI UK Quarterly Property Index

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Bull: The point, Bear, is that we are finally primed for a strong second half of 2024. A bit like Manchester United. They've been down in the doldrums for a while, but the arrival of Sir Jim Radcliffe might be just the spark they need to return to their former glory!

Bear: Manchester United haven't won the Premier League for over 10 years, Bull. I am afraid, it's going to take a bit more than a spurious football analogy to convince me that the UK property market is poised for growth. If you really want to dig into the detail, the office sector has delivered a 12-month return of -10.2%. That screams structural upheaval to me, not just a market blip.

Bull: This is exactly why I wanted to 'dissect' the results, Bear. We both know that the office sector is facing some challenges, but the industrial (+4.1%) and residential (+1.6%) sectors have both delivered positive 12-month returns. The relative performance of different property funds has depended on their exposure to different asset classes.

Bear: Go on.

Bull: Well, the average performance of the top quartile of funds in the MSCI UK Quarterly Property Index delivered a very respectable return of 4.8% in 2023.

Bear: And the bottom quartile, Bull?

Bull: A slightly more challenged -7.1%.

Bear: That's quite a spread.

Bull: Exactly, Bear. The average allocation to industrial for those 'balanced' funds in the top quartile was 42%, compared to the bottom quartile with an allocation of just 19%. They also had a higher average exposure to residential at 22%, compared to just 9% for those funds at the bottom of the performance pile.

Bear: And, let me guess, the bottom quartile funds have a higher weighting to offices?

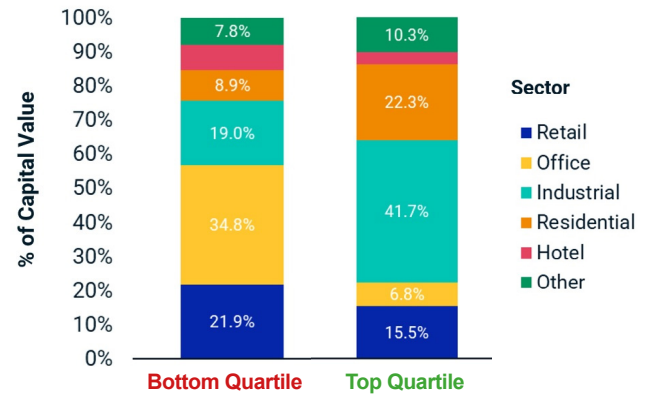
Bull: Spot on. You're much better at this, Bear, than you are at pub quiz questions. The bottom quartile funds had an average allocation to offices of 35%, whilst the top quartile average was only 7%.

And when you consider that 81% of offices saw negative capital growth in Q4 2023, it is not that surprising to see how this plays out in the relative performance of different funds.

Bear: Too right, Bull. If I am reading this right, 28% of offices in the MSCI Quarterly Index saw quarterly valuation declines of more than 5%. That's a major handbrake on performance.

Bull: Correct. There were some correlations between funds' performance in 2023 and their relative exposure to the Southeast and the regions versus London (which underperformed), but it was the sector allocation that really mattered.

2023 Fund Performance by sector weighting



Source: MSCI UK Quarterly Property Index

Bear: Dare I ask how St Bride's Managers' Partnerships fared in all this? I know they have kept faith with their Key Cities, Yorkshire impact and residential strategies. Has it worked for them?

Bull: Yes, very much so. Their Key Cities Partnership ranked 31 out of 219, and their White Rose Partnership was ranked in 39th spot.

Bear: Wow, that's pretty good. And talking of performance, Bull, what did you think of England's performance against Scotland in the Calcutta Cup yesterday? Underwhelming or simply undone by the brilliance of Van Der Merwe?

Bull: Murrayfield is a tough place to go to, Bear. The Scots are always fired up against the English and it felt like they had a point to prove after the TMO debacle against France that denied Sam Skinner a last gasp try and ultimately cost them that game.

Bear: Well, as you found out at the quiz night, Bull, you can't win them all. I always find its best to look at the long game. So, here is my final quiz question of the day. Do you know when the Calcutta Cup was first held?

Bull: Yes. 10th March 1879 at Raeburn Place in Edinburgh. The match was drawn if I remember correctly.

Bear: You didn't 'remember' that, Bull. Nice try, but I can see your phone under the table.

Bull: Ah. Why's the date so important anyway?



Bear: Because if you get any grief from your rather loud Scottish mates, you can politely enquire how many times England has won the Calcutta Cup since its inception, and how many times they've won it. I bet they don't like the answer!