ST BRIDE'S MANAGERS

Bull and Bear

Market Predictions

Bull and Bear wrap up their series of discussions with their market predictions for 2021.

Bull: This is the 'Big One' then.

Bear: Yep.

Bull: We have spent the last ten weekends skirting around the different markets, but we now need to reach some conclusions, set down our predictions and offer some advice on what investors should be targeting in 2021.

Bear: From my perspective, I think we should be really cautious. My grandmother always told me that challenging events arrive in threes. We have had Brexit, and now COVID. So, something else is bound to follow.

Bull: Here we go again. We have the same old problem every year. Did you know that the IPF Consensus (February) total return forecasts have fallen short of the actual outcomes seven times out of the past ten years - and sometimes by a massive margin?

Bear: That is true Mr Bull, but you had your chance last year, and the year before, and you blew it. The Consensus forecast for 2020 was 3.5% but, as we know, the result came in at minus 2.4%. More than that, as I recall, and upon your advice, St Bride's Managers actually forecast +5.0%. What on earth were you both thinking?

Consensus Forecast vs Actual Total Returns			
Year	IPF Consensus Forecast %(1)	MSCI / IPD All Property Outcome %	Forecast vs Outcome
2011	5.7	8.0	Bearish
2012	1.6	3.5	Bearish
2013	5.2	10.8	Bearish
2014	12.1	17.8	Bearish
2015	12.4	13.1	Bearish
2016	7.9	3.9	Bullish
2017	3.2	9.6	Bearish
2018	4.6	5.1	Bearish
2019	2.4	0.6	Bullish
2020	3.5	-2.4	Bullish
2021	2.1	?	?

Source: MSCI, IPF (1) February Each Year

Bull: We were banking on a continuation of Boris's Brexit Bounce, which would have been fine but for that spiteful little bug making a nuisance of itself. Mark my words though, we will get our revenge this year. 2021 will be the year of 'opportunity'. It is the year to be BULLISH!

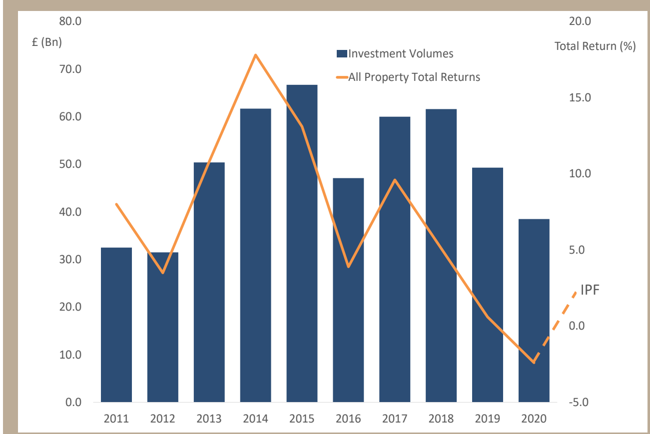
Bear: Really? Where? What? The IPF Consensus total return forecast for 2021 is just 2.1%. With income delivering 4.6%, that implies a fall in capital values of 2.5%. Is that really your definition of a great opportunity, where investors lose their money?

Bull: You are missing the point. 4.6% income return is, well, beautiful. Where else can you get that sort of yield? Bond yields are still well below 1%, dividend yields on equities are barely 3% and interest on cash in the bank is not even worth mentioning.

Bear: I can see that but, in the real world, 4.6% doesn't actually mean 4.6%, does it? By the time you have lopped off COVID-related rent abatements and concessions, vacancy and re-letting costs, void rates and irrecoverable management fees, it will probably be nearer 4%. And heaven help you if your portfolio is still overweight to retail and leisure.

Bull: Even so, given the positive spread over comparative yields, by my reckoning it is not unreasonable to expect a lively pick-up in investment volumes. And, if that happens, and the past correlation between transactions and total returns is maintained, that would imply a respectable hike in total returns this year.

Investment Volumes and Total Returns



Source: LSH, MSCI, IPF, St Bride's Managers

Bear: I accept that the chart indicates an interesting correlation, but we all know that Shopping Centres and High Street retail are currently buried deep beneath Death Valley and London offices are going to be pounded by working from home and a change in commuting habits. The problem is that no-one knows where rental values are going to alight.

Bull: Fair enough, but industrials and residential are going gangbusters, and regional offices are likely to hold their own insofar as there is little vacancy, lots of firms are talking about de-centralising and the Government is committed to 'levelling up'.

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Bear: But you are still overlooking the fact that the IPF Consensus forecast has only one sector, industrials, which is predicted to show positive rental growth this year. All the other commercial sectors are negative. And the overall rental growth number is minus 2.7%.

Bull: Exactly! However, even if you accounted for all that rental slippage in one go, the headline income return would only dip marginally from 4.6% to 4.47%. Moreover, and just to prove my point further, if you had a really monstrously bad hair-day and rental values crashed by 10%, which they won't, you would still be left with c.4%. In the current climate, that is not to be sniffed at!

Bear: Okay smarty-pants. So, what are your 'buys' and 'sells' for 2021?

Bull: In no particular order:

• **Retail** - No-one can be happy about the current state of the retail sector. Rents are tumbling and therefore it has to be a **SELL**. The trouble is that there are so few buyers around at present that it may be difficult to shift assets other than at knock-down prices. Notwithstanding, I definitely would not sell my best located properties. And a surprise rabbit-out-of-the-hat sub-sector could be bulky goods retail warehouses.

• **London Offices** - Despite the obvious challenges, overseas buyers are still lining up for prime London offices. Whilst they also have their eyes on the likes of Paris, Munich, Berlin and Amsterdam, they like the yield advantage they can get in London. And, as St Bride's Number One World City, London is not going away. It is a definite **HOLD**.

• **Regional Offices** - Key cities are a **HOLD** too. But investors need to be sure they have the right product and that they are prepared to be more hands-on in their management. Tenants are certainly going to get pickier.

• **Industrials** - This is any easy one. It is a **BUY**. Many of the old, grubby estates in our cities' suburbs were demolished after the GFC in favour of housing. Now, with strong occupational demand for warehousing in last-mile locations, rents are on the rise. Yields are hot but there are still some decent deals available out there.

• **Residential** - This is a **BUY** too. Despite the Government seemingly putting most of its energy into the buying, rather than the rented sector, we know that, overall, there is a chronic national shortage of housing. The greatest challenge to investors is the immaturity of the market and the most likely entry route is via development. Whilst that carries some additional risk, it will almost certainly be worth taking.

• **Other** - Apparently 13.5% of the MSCI Universe is invested in 'other' assets. This includes student accommodation, healthcare, leisure, car showrooms, etc. I know that St Bride's feel strongly that all 'living' properties should be grouped together. So, with this in mind, I would definitely **BUY** healthcare/retirement living and **SELL** leisure. You don't really need to be a genius to understand why.

Bear: Well, well! What a surprise. I am finding it hard not to agree with you. I just think you are being a bit too optimistic about the timing and the strength of the market's turn-around.

Portfolio Weightings			
Sector	Current MSCI Weighting %	St Bride's Preferred %	Preferred Action
Retail	24.2	15 - 20	Sell
Offices	26.5	25 - 30	Hold
Industrial	26.7	25 - 30	Buy
Residential	9.0	10 - 15	Buy
Other	13.5	5 - 10	Buy / Sell

Source: MSCI, St Bride's Managers

Bull: We are all entitled to our opinions.

Bear: Yes. Which is why I want to register my convictions on two other important matters:

• **Units and Shares** - Buying into funds and listed securities is a perfectly valid way to gain exposure to specialist markets. By using them alongside directly held assets can allow investors to achieve a coherent and blended strategy. Provided you are selective, I see these as a **BUY**.

• **ESG** - Embracing environmental and social impact issues, at both asset and portfolio levels, is no longer a 'tag-along' matter. ESG has risen sharply up investors' agendas, and anyone inclined to dismiss this as an unwelcome 'tree-hugging' exercise will do so at their peril.

Bull: Good points. And, whilst we may have different views on where we sit on the property clock, we both acknowledge that responsible investment is non-negotiable. So, where does that leave us in terms of our bottom-line forecasts?

Bear: Bearing in mind we have already received an early insight via the CBRE Monthly Total Return Index numbers (January +0.4% and February at + 0.7%), I am plumping for 2.75% for 2021.

Bull: Wow! Do you realise what you have done? You have pitched your prediction above the IPF Consensus forecast of 2.1%. Mr Bear, that must be a first!

Bear: Oh!

Bull: And for me, I think the All Property total return will be 4.75%.

Bear: So, as we have done in previous years, are you happy for us to split our predictions down the middle to say 3.75%? I am pretty sure St Bride's Managers will go for that and, with any luck, they will allow us to take some time off over the Easter break.

Bull: Go on then.

All Property Total Return Forecast 2021			
IPF Consensus	Bull	Bear	St Bride's Managers
2.10%	4.75%	2.75%	3.75%

Source: IPF, St Bride's Managers