The Navigator

Issue 1 – Spring 2011

Thirteen Short Stories

Introduction

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Welcome to the first issue of The Navigator. All the contributors are lead-advisers to St Bride's Managers... and hence 'qualify' as members of the St Bride's 'Navigator Club'.

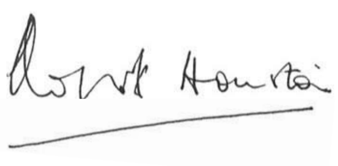
We live in volatile times. Navigating safely through them will take enormous skill and aptitude. That is why we have surrounded ourselves with such talent... our asset managers, administrators, valuers, risk managers, sustainability consultants and a wide range of building experts... all of whom have made a thought provoking contribution to this inaugural edition.

We aim to produce 4 issues each year, and we would be delighted to hear from you with any feedback.

So what are our experts predicting?

- The economic gulf between London and the rest of the UK will continue to widen.
- London office rents will continue to rise.
- Sustained investment demand will ensure that prime yields in London remain firm.
- Secondary assets will struggle. The spread between buyers' and sellers' aspirations will remain unbridged.
- Impending investment regulations will be ineffective and will do a dis-service to the very people / institutions they are intended to protect.
- Sound risk management... in all its guises... has never been more pertinent. Investors are tired, tired, tired of losing money because their advisers haven't spotted the upcoming pitfall.
- Overall, investors will no longer stand for second best. They want a much more robust, transparent and equitable approach to the way their funds are managed.

Welcome to St Bride's Navigator.



ROBERT HOUSTON
ST. BRIDE'S MANAGERS

Property Funds – Delivering what the investors want

The global financial crisis caused a dramatically reduced flow of institutional money into property funds. Confidence in the property markets has now returned but in the wake of Lehman's, investors have had the opportunity of experiencing how their – generally highly leveraged – equity performed in unstable market conditions with values falling dramatically.

STEPHEN PYNE – PARTNER – ST BRIDE'S MANAGERS

It was an uncomfortable learning experience. 2.5 years on, investors are older, wiser and, in a lot of instances, less wealthy than they were. Today the property markets have stabilised, values have risen and the asset class is providing good investment opportunities. Investors are keen to get back into the market. The experience of having fund structures and management strategies tested under fire has made them more selective about the funds that they will invest in and more demanding about how they would like their managers to operate.

We are about to launch two new funds, an office fund and an industrial fund, both based on the London economy. With these new products in mind it is perhaps worth reviewing our approach to fund management and investor relationships in the new environment.

- **Remember why property investment is attractive.** There are still big market uncertainties out there at the moment, be it inflation, Euro denominated refinancing or North African demands for political change. Property is a real asset, delivering a stable and relatively high income with a low correlation to other asset classes. It does not have to be wrapped in financial engineering to enhance its already attractive risk return characteristics.
- **Transparency and reporting. Opaque complex structures are unattractive.** Investors have a right to clearly understand how their money is being managed and how it is performing. There should be no surprises. First class reporting is a minimum requirement. We believe that the investor should have the opportunity to meet up with the manager and its advisors at least quarterly to understand all the issues, the progress being made and challenge the team. Ideally these meeting should allow them to view the properties owned and meet the tenants so investors can find out about life from their perspective. There is nothing like 'kicking the tyres' to really understand how your money is performing.
- **Take a long term view and produce clear strategies that are deliverable.** Our London funds have a ten year life. They are geared towards growing the income distribution rather than just focusing on capital growth. We believe this is a realistic approach in today's environment. We are targeting funds sizes of £250 million which may take 2 years to fully invest. Investment of equity will take place in smaller tranches allowing investors the opportunity of reviewing market conditions prior to investing in each tranche. A good strategy today may not be appropriate for market conditions in 24 months time. So why sign up for 24 months?
- **Alignment of interest.** Well structured fees and co-investment encourages the appropriate behaviour by the manager. Co-investment by the manager is nowadays considered a prerequisite. Fees should be based on the delivery of the fund strategy. In the case of our funds which deliver income distribution the fees are based on income rather than the most traditional NAV or capital value. A carried interest is good but only if it reflects long term performance and is paid on crystallised performance targets.

Finally the fund manager should remember who owns the fund.There should be an expectation that doing a good job, delivering the appropriate returns, communicating well and making the experience fun for investors leads to a long term mandate. Falling short on these principles should lead to a change of manager rather than the old system where the manager was imbedded in the fund. Clearly we are comfortable that we can deliver without the old unattractive governance processes!

Regulation to achieve what??

The Alternative Investment Industry (Property, Private Equity and Hedge Fund managers) have not made best friends of the politicians in recent years.

DAVID BAILEY – MANAGING PARTNER – AUGENTIUS FUND ADMINISTRATION

Substantial and obvious wealth, some inappropriate public comments and trading strategies that were perceived not to be in "the public interest" (shorting, corporate restructuring involving redundancies etc.) all led to politicians being desperate to find a way of shackling the industry. Then came the global recession and the Madoff scandal.

The time was right for the politicians to score "brownie points" with the electorate and to force legislation and regulation. Mr Rasmussen was at the forefront within Europe demanding the introduction of the Alternative Investment Fund Managers Directive which, after much debate and wrangling, was finalised in November 2010. Despite the fact that much of the detail has yet to be worked out, the Directive will have to be implemented by EU member states in 2013. There were similar reactions in the US resulting in legislation which, although more pragmatic, will require all managers to register with, and be overseen by, the SEC by summer 2011.

The purpose of this short article is not to comment on the contents of the Directive but to consider how effective it will be in stopping the "misdemeanours" of the past. However to do so we do need to consider some of the requirements and their impact:

1. Capital Requirements and Insurance – managers will be required to contribute more capital/take out insurance. This will increase costs and reduce the amount of capital managers will have available to them to invest in funds – reducing their alignment with investors. It will also have the potential effect of discouraging new and innovative managers. But the overall amount of capital required will do little to re-assure investors.

2. Segregation of Functions – there is a greater requirement for the segregation of certain roles and functions, this includes risk and valuation, increasing the need for more infrastructure in the manager – and therefore costs. However the internal segregation of duties will not remove fraud if that is what the manager wants to do – he will still be able to influence the internal functions – as Madoff did.

3. Remuneration – there will be greater need for disclosure and greater restriction on the payment of "variable" remuneration – once again making it harder for managers to work in this environment. But investors have always been aware of manager remuneration – and where managers have received high remuneration so investors have received high returns – interests have always been aligned.

4. Depository and Fund Structuring – every fund will need to appoint a depository, again creating additional costs. Given the restrictions of the AIFM there may be a flight to off-shore structures, at least initially, in an attempt to avoid the Directive – again creating additional cost and potentially moving jobs from within the EU to other locations. In addition, the Madoff funds had Depositories and so it is proven that this will not prevent a re-occurrence where determination exists on the part of the fraudster.

There are many other parts of the Directive that will have a negative effect upon the industry both in terms of its efficiency and costs.

It will be harder for new entrepreneurial managers to emerge and there is likely to be a continued move towards consolidation within the Alternative Fund Management industry. In addition, legislation will never stop fraudsters.

The only losers in this scenario are likely to be the investors i.e. our pension funds. The losers will actually be the politician's electorate – just the people they were trying to protect. Unfortunately political attitudes have got in the way and what was an entrepreneurial and creative industry is likely to be shackled with restrictive legislation and reduced investment returns.

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A positive view for London

Demand from financial services companies is the mainstay of the Central London office market with leasing activity closely aligned to activity in financial markets and the fortunes of companies that operate in these markets.

PETER DANDY – SENIOR SURVEYOR – CB RICHARD ELLIS

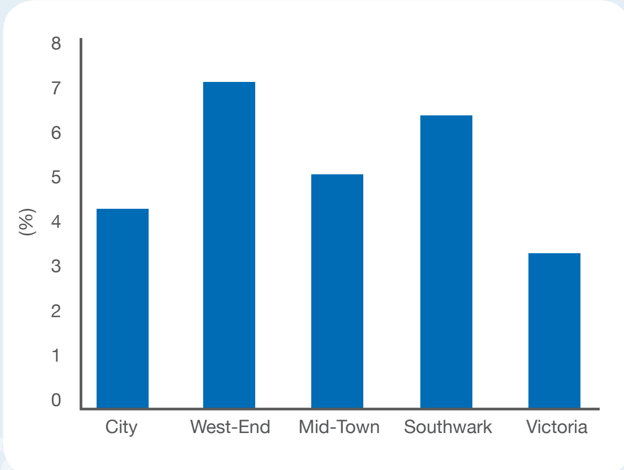
Whilst London undoubtedly faces threats to its position as one of the world's pre-eminent financial centres it also has a number of key advantages over its competitors which are not easily replicable such as a pool of expertise, financial infrastructure and time zone. That is not to say that more footloose specialist financial occupiers won't relocate. Indeed, a handful of hedge funds have already opened offices elsewhere.

CBRE predict moderate financial and business services employment growth between 2010-2015 as greater regulation becomes a reality. However, two other structural factors are expected to inject significant impetus to office demand in Central London: forthcoming lease breaks and expiries, and greater merger and acquisition activity.

In respect of the former due to the timing of previous cycles 27m sq ft of leases are due to expire between 2011 and 2015. At present there are approximately 30 active requirements over 50,000 sq ft in the City alone. M&A activity, which is predicted to increase in 2011, is an important driver behind some of the more substantial deals in Central London, for example BlackRock's merger with Barclays Global Investors foreshadowed leasing 270,000 sq ft at Drapers Gardens in the City last year.

Despite robust rental growth in 2010 which saw the prime City rent increase to £55 psf (an annual rise of 19.9%) and the prime West End rent hit £87.50 psf (an annual rise of 9.6%), this upward trend is likely to continue because even modest demand is expected to drive up rents as the market is so under supplied with new space. As development finance has been constrained during the recession only 1.6m sq ft of completions, across Central London, are scheduled for 2011 and a further 2.4m sq ft expected for 2012. We also expect refurbishment opportunities to become increasingly sought after to deliver good quality space to the market.

Unusually City rental growth has recently outpaced the West End. However looking ahead over the next 4 years, as shown by the bar chart, the West End is expected to outperform. As the bar chart depicts, certain sub-markets such as Southwark are also expected to witness strong rental growth as supply tightens and occupiers are priced out of the core markets. To some extent it would appear, however that the West End investment market has already priced in some of this growth with prime equivalent yields at 4.00% in February. In the City the prime equivalent yield is 5.25% and may come in further as high investor demand and limited supply of prime stock interact to put downward pressure on yields.



CENTRAL LONDON RENTAL FORECAST – ANNUALISED GROWTH 2011–15

Riding the wave of regulation

A wave of regulation is fast approaching. With rip tides disappearing quickly we'll have to find a way to ride it to shore. Regulation is rising to the top of the agenda for many in the real estate industry and one cannot help wonder whether real estate is suffering the collateral damage of regulation focused on a broader global financial system.

CRAIG HUGHES – PARTNER – ERNST & YOUNG

Recent regulatory developments include:

- signing into law of the Dodd-Frank Act in the US;
- the adoption of the Alternative Investment Fund Manager's Directive (AIFMD) by the European Parliament;
- the development of Solvency II and Basel III;
- discussion and debate of the European Markets Infrastructure Regulation (EMIR); and
- the Bribery Act.

The aim of these regulations is to provide a mechanism for monitoring and mitigating systemic risk, providing greater protection to investors and improving the transparency of investment positions. At the outset of the 18 month journey to adoption of AIFM the general feeling from the real estate community was that the EU was responding to speculative activities and the sector would benefit from exemptions or carve outs.

A similar story surrounds the moves to regulate derivative trading. Whilst some real estate businesses were beginning to engage in speculation through derivatives prior to the financial crisis it was rarely a core part of their business model. Instead, real estate businesses commonly use derivatives to mitigate commercial risks, particularly with regard to interest rate movements on variable rate loans. But again the real estate sector has found itself directly in the sights of regulation.

The issue for real estate is that under the EU's proposals, Alternative Investment Fund Managers, as defined by the AIFMD, would be considered 'financial' entities. The EMIR (often referred to as the derivative directive), requires financial entities to hold cash margin accounts with a central counterparty as collateral for its derivative positions in order to mitigate financial risks of speculative trading. For real estate, traditionally the underlying real estate assets have been collateral enough, but no longer if the current proposals take hold. If the proposals do come into force, real estate funds are likely to be forced to set aside considerable capital to cover their derivative positions, even if they have been entered into as part of a commercial risk mitigation strategy.

Consider also that listed real estate companies could still fall under the definition of an AIFM (albeit seemingly unintentionally and the momentum for lobbying for exemption is considerable) and you begin to realise the extent of the potential impact on the industry. In assessing which regulations impact your business be wary of assuming that a US regulation such as Dodd-Frank limits it's reach to domestic business. In certain circumstances it reaches beyond its borders and with July 2011 approaching quickly it's time to make sure you understand your position.

Rather than being viewed as a compliance headache, some believe the regulations should be embraced as an opportunity for managers to enhance their service and brand, address investors' concerns on the back of the financial crisis, and thus be better positioned to access institutional capital. However, it is unfortunate that the capital available to managers from EU institutions could be significantly impacted by the Basel III and Solvency II regulations that the EU is implementing.

Introducing tougher capital and liquidity requirements is likely to have a disproportionate impact on the availability of capital from these traditional sources to the real estate sector as opposed to more liquid asset classes.

A recent Preqin report highlighted that 44% of European insurance companies who invested in real estate have more than €1bn allocated to real estate investments, and that of these companies, 26% stated that they would make fewer commitments to private real estate funds as a direct result of Solvency II. If, as has been suggested by the EU commission, pension funds are also caught by similar regulation, the impact is likely to be exacerbated. The liquidity ratios in Basel III may, in turn, deter banks from investing in, and lending on, illiquid assets such as real estate.

It's not all bad news for the real estate sector. Although there does seem likely to be a structural shift away from real estate for the traditional institutional investors, a new wave of sovereign wealth capital may fill the void. However, the real estate industry is justifiably concerned about suffering the collateral damage of regulation as regulators attempt to address the causes of the financial crisis.

Now is the time to assess the impact of regulation on your business, decide on a strategy to move forward and implement that strategy. This wave isn't going to break soon so let's get the balance right and ride it to the shore.

Outlook for 2011 – Central London offices

2011 will continue in the same vein as 2010 with strong demand for Central London office investment.

KEN EDWARDS – PARTNER – MORGAN CAPITAL PARTNERS

Central London is one of the largest commercial real estate markets in the world with close to £11 billion of investment transactions taking place in 2010. Approximately 70% of these were undertaken by overseas investors, a trend we expect to continue. 2011 will also see increased activity from the UK institutions, further adding to the level of demand.

Positive forecasts for the occupational market continue to fuel investor appetite increasing pressure on prime yields. The occupational market will continue to improve as existing office availability falls and the supply of new or refurbished space coming to the market remains limited. In the City, there will be a shortage of good quality accommodation at the smaller and larger ends of the market, whereas in the West End there will be a shortage of Grade-A accommodation across the board – submarkets included.

2011 will see marginal improvements in debt availability for investment transactions, but only where strong fundamentals underpin the investment case. There will be little change in the lack of development funding and we will continue to see a trend in developers teaming up with private equity partners to facilitate new schemes.

Central London will experience an increase in investment supply as a result of an increase in bank-led sales. To date there have been a number of distressed sales and these appear to be coming to the market in a steady flow. If this remains the case it should not affect prime yields but will create a wider disparity between prime and secondary.

WHAT DO WE PREDICT?

Prime yields will remain at around 5.25% in the City and 4.00% in the West End with the exception of specialist locations such as Bond Street. In the City, rents will end the year at circa £60 psf and the West End at circa £95 psf.

Should investors continue to buy in Central London...Yes!

2011: Is this the year the tide turns?

This could be the year that insurers refuse to cover properties considered to be at too much risk of flooding and the year when the value of those properties sinks like a stone. The Environment Agency estimates that property with a value of £200 billion is at risk of flooding – from rivers, from the sea, and from rainfall which is just too heavy for the ground to soak up or for sewers to drain away.

CHARLES WOOLLAM – PARTNER – SIAM

In SIAM's analysis of institutional investment grade properties with a combined capital value of £2 billion, we have found that 20% of capital is invested in locations officially designated as "Flood Zones". The risk of flooding is rarely reflected in current valuations because insurance has been widely available – until now.

The Association of British Insurers has been saying for years that the availability of cover is conditional on both the willingness of the global reinsurance market to provide cover and the UK Government's commitment to maintain and improve flood defences.

Over the past 10 years, the cost of dealing with flood-related claims in the UK was £4.5 billion, an increase of 200% over the previous decade. Despite widespread recognition that more needs to be spent on flood defences, the Government has cut the budget from £665 million to £529 million for each of the next four years as part of the Comprehensive Spending Review. With serious flooding in Australia and Brazil already making the headlines in 2011, this could be the year when the insurance industry has simply had enough.

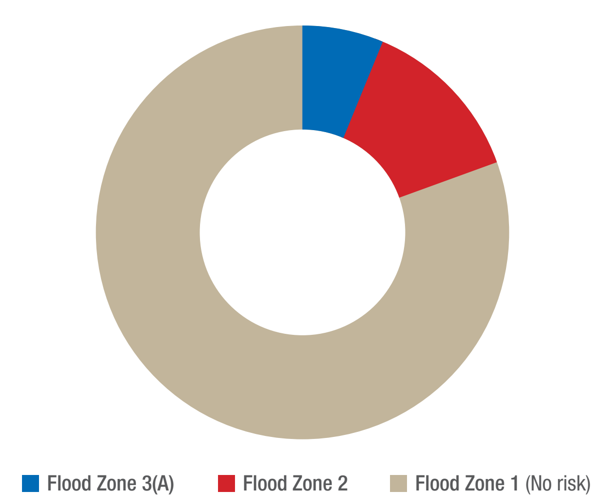


FIGURE 1: CAPITAL INVESTED IN DESIGNATED FLOOD ZONES (SIAM 2011)

A number of things will happen swiftly to unlucky owners of flood-prone property if insurance becomes unavailable. First, investors will simply refuse to bid for badly-affected properties when they are brought to the market. Many prominent institutions are already taking this approach. Secondly, investors relying on debt to fund purchases will find it impossible to obtain loans. Thirdly, those who are still prepared to bid will discount their offers to reflect the increased risks and reduced liquidity.

At the same time, occupiers of flood risk properties will be unable to insure against damage to stock or business interruption.

This, too, will have an impact on property investment values as tenants take the earliest opportunity to relocate to higher ground or discount rents in comparison to safer premises.

What do investors want now?

Post credit crunch and major changes in the real estate market, many investors seem to have adjusted their return expectations. However, they are now looking far more closely at the nature of the arrangements they have with fund managers.

BRIDGET BARKER – PARTNER – MACFARLANES LLP

In particular, there is a focus on fees, team composition and the level of control. In turn, this is leading a number of investors to reduce the number of managers with whom they invest – but often increase the amounts of money they give to those managers.

It is clear that top performing managers are still largely able to dictate terms – investors continue to want to invest with them. Conversely, managers whose portfolios are in trouble, are finding it difficult to negotiate extensions to their fund's investment period and/or raise a new fund. Managers in the middle area are being forced to negotiate and to adjust their terms to accommodate investors' demands. The gap between the "good" and "bad" managers has widened.

Fees are being scrutinised far more closely. Although, in the majority of cases, promotes seem to remain at the 20% level, management fees are under particular pressure and often detailed budgets are being requested by prospective investors.

There has also been considerable generational change – senior managers have been moving on (forcibly or otherwise) and younger managers taking over. Investors want to know who exactly is doing the managing and how much of their time is being devoted to that activity. There is more focus on key-man provisions and the procedural consequences of a key-man event.

Control rights come in a number of different forms. We see investors expecting greater transparency. Investors want better and more frequent reporting throughout the term of the relationship. They want early warning of problem issues or team changes. In some cases this is leading investors to look away from the classic fund structure (where all investors are treated exactly the same) to co-investment or discretionary management arrangements which are more tailored to suit their precise requirements.

Another control trigger is the ability to exercise termination rights. Fault removal provisions have generally not changed but investors are looking more closely at no fault divorce clauses. Investors want it to be easier to walk away – with reduced penalties if they do so.

These issues, plus considerable regulatory upheaval on the horizon, mean that we are currently in a state of flux with many investors looking to change their existing relationships with managers and the terms on which, in future, they will agree to invest.

Going forward we fully expect to see a greater variation in terms and fewer standard 10 year "blind pool" fund arrangements.

London, are we there yet?

Following the turmoil caused by the global economic crisis, we have seen both domestic and international real estate investors increasing their focus on London compared with other regions of the UK.

MIKE HARRIS – CEO – OXYGEN ASSET MANAGEMENT

In the last quarter of 2010 almost two thirds of all UK property deals happened in the capital city amounting to total transactions of circa £5.4bn.

For overseas investors the preference towards investment in London compared to the regions is not a new trend but one that has been exacerbated by the attention grabbing fall in values around 2008 combined with the comparative weakness of sterling and increase in global equity looking to diversify from unstable local markets.

For domestic investors however the increased attention on London, which appears on the surface to have been driven by property fundamentals, is perhaps more interesting.

Over the years I have noticed so often that UK investors and in particular the major institutions have tended to move in crowds towards certain sectors and geographic locations. Generally this is understandable and these investment decisions are on the whole due to sound economic decision-making. However it would seem that the increased reliance on benchmarking and the fear of acting contrary to one's peer group can result in certain sectors becoming overheated or conversely over sold.

When I consider the trend towards London, my initial reaction is to wonder if this may be the case currently and that one might look to the regions for value where prime property has been neglected and which might present an opportunity to find value. There is no doubt that this contrarian view is beginning to gather some credence in the market and consequently I would not be surprised to see prime regional investments yields hardening in the coming months.

However currently in London the stock that is attracting the strongest prices is generally similar and made up of grade A buildings in top locations let to the very best tenants. The market seems to have all but convinced itself of the underlying rental growth story for this stock and for many there is perhaps a sense that once invested it is just a case of sitting back and letting the market do the work.

Time will tell if this is the case. In the meantime we will be concentrating more of our time on the increasing amount of asset management stock, in and around London, being brought to the market by banks and distressed vendors. This should provide us with the opportunity to reposition buildings in order to make sure that they tick some more of those all important risk/reward boxes.

I have a passion for good Technical Due Diligence...

Does that sound weird? I hope not! 'Technical Due Diligence' (TDD) is the process of research, inspection, analysis and discovery in which a prospective purchaser, occupier or financier gathers information about the physical characteristics of a property.

DAVID MANN – PARTNER – TUFFIN FERRABY TAYLOR LLP

A significant part of this is the work undertaken by the team of a building surveyor, mechanical & electrical engineers, environmental consultant, and often other specialists to produce a report to assist their client along this process.

As an all encompassing term, TDD is becoming more common place in the UK, as a replacement for what has generally been called a 'Building Survey', much like this replaced use of the term 'Structural Survey'. For me it is much more than simply a new name for an established professional service. Just like the building surveying profession itself, TDD reflects the broader content of a typical survey report, as a risk assessment tool that can deliver increased benefits to commercial institutional investors or occupiers.

The current state of the commercial property market is driving the need for a more concise and yet holistic approach, but often with a faster turn around and competitive fees. However, there is a need to find the right balance in the vicious circle that is 'TIME' versus 'QUALITY' versus 'COST' versus 'RISK'.

It is no longer enough to just report on the condition of a building's fabric, other elements have to be considered. For example, sustainability, which is being driven partly by legislation but is also forecast to have an impact on property value.

The TDD process also has the potential to add value, such as identifying opportunities to add an additional floor, resolve tenant related problems or comment upon future re-use to avoid obsolescence.

I have recently had the honour of being the chairman of the working party producing the 4th Edition of the RICS guidance note entitled: 'Building Surveys and Technical Due Diligence of Commercial Property' which sets out procedures and standards of professional competence, reflecting the best practice expected of surveyors.

My mantra is that there is no substitute for a good quality, well researched and thorough TDD process during which the building surveyor works with the TDD team to 'close off' any significant issues and assists his/her client to make an informed decision when acquiring property.

It is this which is the solid foundation on which to invest wisely and protect your assets now and in the future; and why I get excited by it!

Scrum down for a tough but rewarding year

As we emerge from the winter snow storms, we at Trident are looking forward to the next year from both a business and also a sporting perspective. The Rugby World Cup will be taking place later this summer and there is also an increase in activity in the property industry.

TREVOR DOWD – MANAGING PARTNER – TRIDENT BUILDING CONSULTANCY

The indicators suggest it's going to be another tough year in business with a lot of hard work required over the coming months. A good showing by England in the Six Nations has been a welcome distraction. Also hopefully they will develop the momentum they need if England is to reach the final stages of the World Cup.

As the underlying psychological factors required for optimum performance in business and in sport are similar, perhaps we can draw some comparisons between England's tasks over the next few months and our own.

I would always start with the need for a solid base and a good understanding of your current position. The Royal Institution of Chartered Surveyors Building Cost Information Service (BCIS) recently confirmed an increase in contractors' tender prices in both the 2nd and 3rd Quarters 2010, the first increases since the 1st Quarter 2008. They predict a slow upward trend in tender prices in 2011.

Also, BCIS reported that new work output is expected to be sluggish in 2011 and 2012 due to reductions in public sector spending but this will be partly offset by an increase in private sector spend so that overall output in 2011 should be 10% higher than in 2009.

In addition, Natwest Real Estate Finance Business Development Section confirmed in January 2011 that the shortfall in the UK GDP in 4th Quarter 2010 was likely to be a blip and they consider the underlying signs indicate a reasonable base from which our industry may develop in 2011. England appears to have a good base and hopefully the winter international against South Africa will also prove to be blip. The Six Nations performances confirm England is in good form but they need to steadily improve over the coming months.

We at Trident have noticed a pick up in activity in the property industry. There has been an increase in the number of pre-acquisition surveys and also a good level of new instructions for repair and maintenance, refurbishment and dilapidations.

We believe, as with England, we have a lot to look forward to in 2011. We feel optimistic about the future and know that with the talent we have at Trident allied with hard work, good attitude and resilience, we shall perform well this year.

England and Trident both need to set out their vision for the year and explain how each team member can make that vision come alive. It is likely to be a hard year but let's make sure we face it head on, enjoy the challenge and learn to love the pain as then success will taste all the sweeter.

Property management – No longer the ugly duckling?

For several years property management has been misunderstood, undervalued or forgotten by many. Over the last three years the sector has come much more into focus due to the continued increase in statutory obligations, the effects of the credit crunch and resultant recession and developments in IT.

NIGEL MAPP – CEO – M J MAPP

We have identified a number of areas which are seeing substantial change and this article provides an overview of the developments and thinking in two of these key areas. We hope to return to each of them in further detail in subsequent issues.

SUSTAINABILITY

Virtually all owners have now turned their attention to the issues surrounding sustainability and an increasing number want to lead and to ensure their buildings are as sustainable as possible, in order to appeal to an increasingly aware occupier base.

Some property owners (Threadneedle's Low Carbon Fund and Climate Change Capital's London Fund) are even setting up new funds in order to attract investment and occupiers with a desire to occupy sustainable buildings.

Until very recently such matters were the preserve of pioneers but, largely due to CRC and general awareness levels, sustainability hit the mainstream in 2010. This has resulted in property managers having to recruit and invest in this sector.

There is a lack of consensus about the best approach but, given that most buildings are second hand, M J Mapp has put pragmatism at the core. Amongst a host of other initiatives, we are working with utility consultants to fit automatic meter readers (AMRs) to obtain accurate live utility consumption data; engaging with occupiers on sustainability matters, achieving "zero waste to landfill" on our existing portfolio, working with our approved contractors to ensure they are reducing the impact of their activities on the environment and developing software to report across the whole spectrum of sustainability.

UTILITIES

The volatility surrounding oil and gas prices is resulting in utility suppliers increasingly offering only short term contracts and requesting large deposits. The amount of deposit and length of term offered vary depending on the ownership structure of the property/fund and the previous payment record. It is becoming very difficult to be able to provide competitive terms on buildings owned as a single asset by an offshore entity.

The challenge for property managers in 2011 is to negotiate reasonable terms on deposits, whilst trying to manage price rises way ahead of inflation and move, wherever possible, to a more sustainable product.

A proper look at your risk

The only issue with buying an insurance policy is that you never know if you have the right product until it is too late and at which point, the problem could be significant... possibly rendering you without an asset or a business in an extreme situation.

JULIAN MUNGO – MANAGING DIRECTOR – AQUILLA INSURANCE BROKERS LTD

How many times have you gone to a DIY superstore not entirely sure what you need for a job in hand:

How many times have you:

- wanted, but struggled to speak to someone who could identify exactly what you needed and then helped you to buy the correct products?
- received an answer which seemed perfectly sensible at the time, only to get home and find out that the product you bought on the back of that advice wasn't correct?

Buying an insurance policy is obviously not as simple or as tangible as buying a paint brush, so it is critical you employ insurance professionals who know your business. The basic role of an insurance broker is to help their clients to assess their exposures, understand what their client's risks are, know the products that are available and then marry the two together so that when it comes to a claim, there are ultimately no negative surprises.

Insurance policies do not cover absolutely every eventuality that could result in the policyholder incurring an unexpected cost. Despite thinking they were fully covered (have you ever wondered why the "All Risks" label is usually written with inverted commas), seemingly "everyone" has a story to tell of them submitting a legitimate claim only to find the insurer appearing to do everything in its power to avoid making a payment!

The fact that this seems to be such a common tale perhaps suggests one or a combination of the following key points where the policyholder has not:

- been given the right advice.
- been made aware of key elements of the policy and in particular "what is not covered".
- been made aware of their responsibilities required by the policy.
- listened properly!

The problem does not necessarily lie with the insurance policy (assuming the right policy is in place), but is more likely to be down to the professional advising the policyholder. Protecting your business and your assets correctly is critical, which underlines the importance of employing an insurance broker who really does understand your business and are able to help you through the maze of possible options to ensure you are buying the right insurance products for you and your business.

In turn, people will start to change the way they think about insurance company's attitudes to paying claims.

Grade A office refurbishment: Maintaining a façade?

2011 will see a low volume of newly completed office space coming to the market in Central London, and especially so in the small to medium sized developments. Probably a good thing, as this is matched by low demand in the occupier market.

RICHARD BENNETT – CEO – SHOR ASSOCIATES LIMITED

The perception, however, is that occupier demand will rise, overtaking supply. And off we go, with new office development back in fashion.

But the lead time on redevelopment means a lag of a year or two in new space coming onto the market. Second hand building stock can no doubt fill the gap for a while. So an opportunity exists here for fast-track refurbishment of existing buildings, with shortened lead times. The question is what quality can or should we deliver?

What we are talking about here is prime office locations, and poor building stock. The challenge is to turn this into as-new, grade A office space, and quickly. The quality of interior finishes and fittings can be taken for granted: the definition of grade A is energy performance. Put simply, there is only one goal; an energy performance certificate in the high B rating. Not just a B, because the expectation is that the benchmark for EPC B will shortly be raised, and you don't want to drop a grade, so you have to go for the top end.

To explain what a high B means, just look at what an A involves. In brief, an A is probably unattainable without on-site renewable energy sources and natural ventilation. So we can forget about EPC A in our prime office locations.

What's more, a high B requires a highly efficient façade, with very low air infiltration and not more than 40% glazing. Inside, totally new plant. Refurbishment is so extensive that the description is 'frame retention' not refurbishment. The question is whether this is 'frame and façade retention', or just frame retention.

The problem is cost: with frame retention only, we are talking about construction costs of £180 to £220 per sq ft, perilously close to the price of a new building. The gain is speed, but the risk is that you will have paid too much, or rather paid for a building and then thrown a lot of it away, with a nagging doubt about whether the bit that you have retained , i.e. the structural frame, was actually worth keeping.

So you don't want to pay too much. If you are going to throw it away, it may as well deserve it. The answer, in words that Jeremy Clarkson might have coined, is 'nice frame, shame about the façade'. Ugly is good.

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