

ST. BRIDE'S
MANAGERS

Investment Seminar 17 June 2015

St Bride's Managers

Welcome to Wellcome

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SPEAKERS AND TOPICS

Introduction	Robert Houston
UK Economy – A Global Perspective	Dominic Hammond
UK Commercial Property Market – Buy, hold or sell?	Ian Houston
Pension Pots – Insights from Australia	Roger Parker
Residential – Insights from the US	Richard Saunders
UK Property – Is the sun rising or setting?	Robert Houston
Property Mind Games	Martyn Rowland
Tea & Coffee	

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Dominic Hammond

St Bride's Managers

UK Economy – A Global Perspective



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THE GLOBAL RACE



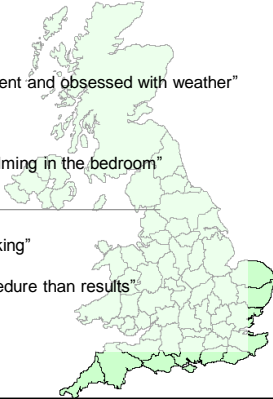
- The global race – our noses are near the front
- Challenges lurking under the headline numbers
- Innovation can meet those challenges

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THE VIEW FROM ABROAD

- "Masters of understatement and obsessed with weather"
- "Most Brits are hilarious"
- "Insecure and underwhelming in the bedroom"
- "Lazy and backward looking"
- "More interested in procedure than results"
- "Clever and creative"

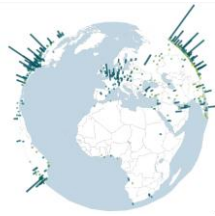


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LONDON vs REST OF WORLD

Rank	City	Score
1st	London	100
2nd	New York	98.4
3rd	Tokyo	92.9
4th	Hong Kong	90.9
5th	Paris	90.2
6th	Singapore	89.7
7th	Chicago	84.2
8th	Toronto	84.0
9th	Sydney	83.8
10th	Munich	81.9
11th	Amsterdam	81.8
12th	Stockholm	81.8
13th	Melbourne	81.5
14th	Frankfurt	81.4
15th	Boston	80.2
16th	Seoul	80.0
17th	San Francisco	79.5
18th	Washington D.C.	77.7
19th	Los Angeles	77.7
20th	Vancouver	77.2

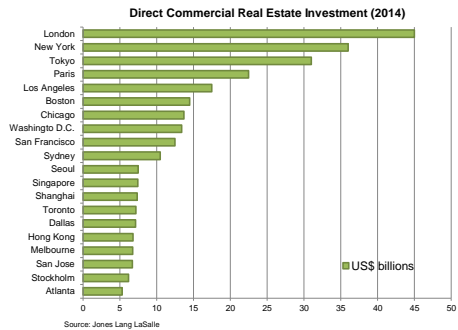


Source: Ramidus / St Bride's Managers (underlying data available on request)

London still tops our World Cities Index

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LONDON vs REST OF WORLD



► London is still desirable compared to rival markets

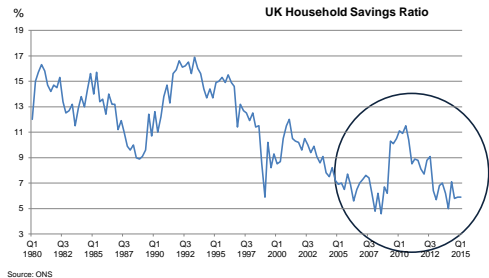
UK vs REST OF WORLD

	UK	G7 (ex UK)	
GDP Growth (annual)	2.36%	1.26%	
Unemployment	5.43%	7.33%	
Consumer Confidence	102.27	100.85	
10yr Benchmark	1.99%	1.53%	
Inflation	0.1%	0.33%	
Budget Deficit	-5.69%	-3.6%	

Source: OECD, ONS (most recent period)

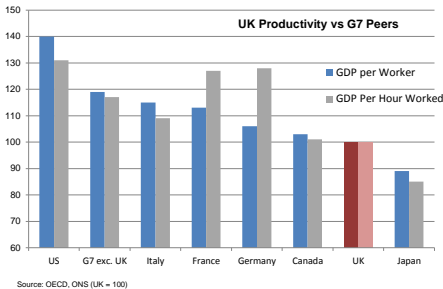
► A relatively healthy economic picture but let's not get carried away...

SPENDING TOMORROW'S WAGES



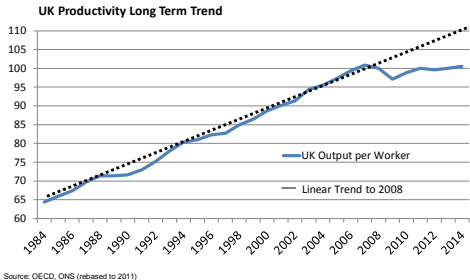
► Debt-fuelled consumption has boosted growth but it is sensitive to rates and ultimately unsustainable

BEING PRODUCTIVE



► Are we comparatively lazy and inefficient?

BEING PRODUCTIVE



► More employees, less work

INNOVATION



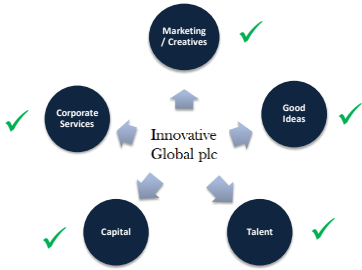
INNOVATION



- The next Inditex? George Osborne hopes so

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STRUCTURAL ADVANTAGES



- We are world leaders in the industries that turn innovation into revenue

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THE REAL ESTATE CONTRIBUTION



- The built environment is emotive – landlords should celebrate its use and users

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CONCLUSIONS



Joe Root England Cricketer
"Build around your strengths"

- Doing well...but not **that** well
- Rates and productivity are key for the next cycle
- Our structural advantages are intact
- Use those advantages to capitalise on innovation

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Ian Houston
St Bride's Managers



UK Property Market - Buy, Hold or Sell?



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ALL ABOARD THE PROPERTY EXPRESS



- Is it time to clamber aboard, sit tight or jump off?

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SO IS THIS 2006/2007 ALL OVER AGAIN?

2006/2007 Season	Final League Position	2014/2015 Season	Final League Position
Tottenham Hotspur	5 th	Tottenham Hotspur	5 th



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SO IS THIS 2006/2007 ALL OVER AGAIN?



2006

2015

2006

2015

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PROPERTY – STEAMING ALONG

	2006	2014
Total Investment Volumes	£56.1bn	£61.7bn
Net Inflows into Institutional & Retail Property Funds	£5.0bn	£4.5bn
Total Return	18.1% pa	19.3% pa
Income Return	5.2% pa	6.2% pa
Capital Value Growth	12.4% pa	12.4% pa
Rental Value Growth	3.6% pa	3.1% pa

Source: LSH, Savills, IPD

- On the face of it everything looks pretty similar to 2006...

	2006	2014
IPD Capital Value Pre-Crisis Peak to Present	100	79
Prime / Regional Secondary Yield Gap	100 bps	300 bps

Source: CBRE, IPD

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SEASON TICKET LOANS AVAILABLE

	2006	2014
Outstanding Debt against Property	£188bn	£165bn
New Debt Originations	£82bn	£45bn
Lending by the 12 Most Active Lenders	70%	60%
Average Loan to Value Ratio for Prime Offices	80%	70%
5 year SWAP Rate	5.50%	1.90%
Average Interest Rate Margin for Prime Offices	1.00%	2.20%
IPD All Property Equivalent Yield	5.40%	6.40%

Source: De Montford University, IPD

- The availability of cheap money is stoking the engine

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ATTRACTIVE VS OTHER MODES OF TRANSPORT

Asset Type	Income Returns % pa	Yield Gap
All Property (IPD) as at December 2014	6.20	-
FTSE 100	3.61	2.59
▪ Oil & Gas	5.17	1.03
▪ Technology	1.27	4.93
10 year Government Bonds	2.00	4.20
Base Rate	0.50	5.70

Source: FT, IPD

- Unattractive income returns from low growth/risk-free assets continue to fuel investor demand for UK commercial property
- The scope exists for bond yields to rise before they start beginning to act as a constraint on commercial property yields

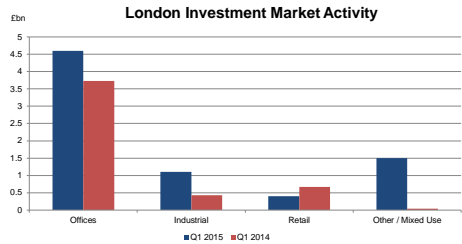
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NEXT STOP – THE WORLD'S #1 WORLD CITY



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OVERCROWDING ON ALL LONDON LINES



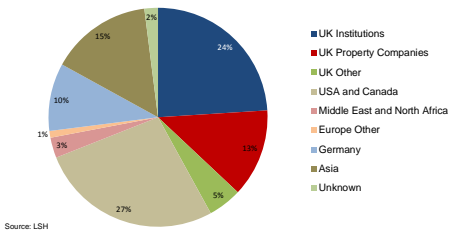
Source: LSH

- ▶ The London investment market has got off to a 'flyer' in 2015
- ▶ Appetite for London property remains unwaveringly strong leaving many buyers frustrated

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OVERSEAS PASSENGERS STILL DOMINATE

Investment Transactions by Purchaser Q1 2015

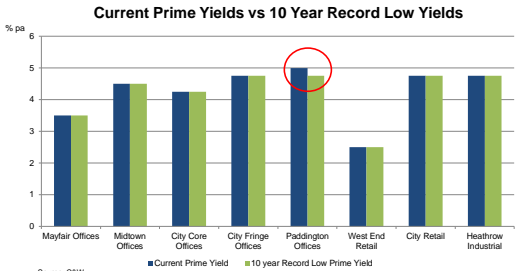


Source: LSH

- ▶ Overseas investors do not always look at pricing in the same way as our domestic institutions

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TICKET PRICES ARE NOW AT RECORD HIGHS

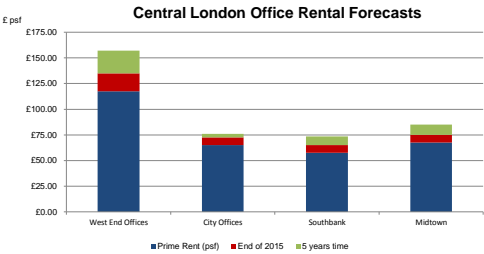


Source: C&W

- ▶ Prime yields are now, on the whole, at record low levels
- ▶ Is there really any scope for further yield compression?

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FORECAST GROWTH IN ZONE 1 LOCATIONS

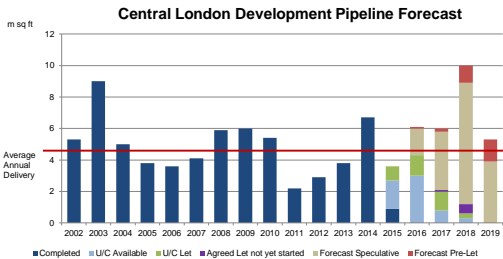


Source: CBRE

- ▶ Current prime yields can be more easily justified if the net income can be increased through rental growth and asset management initiatives

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ENGINEERING WORKS PLANNED



Source: Deloitte Real Estate

- ▶ Office construction is up 24% over the past six months
- ▶ Supply increases will be felt at different times across London

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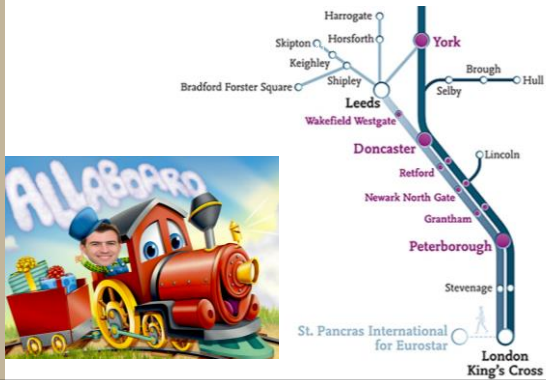
LONDON - SIT TIGHT AND ENJOY THE JOURNEY



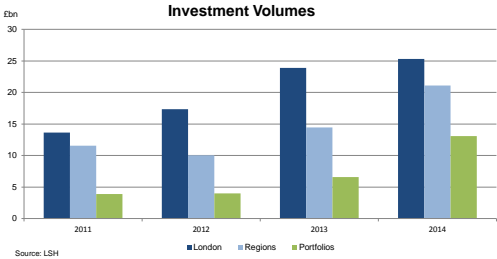
- ▶ Rental growth and asset management initiatives should provide sufficient protection from any large bond yield increases

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NEXT STOP – UK REGIONS

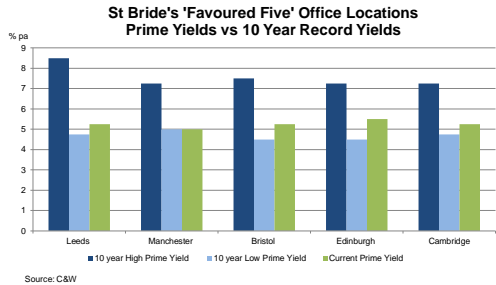


MORE PASSENGERS HAVE JUMPED ON BOARD



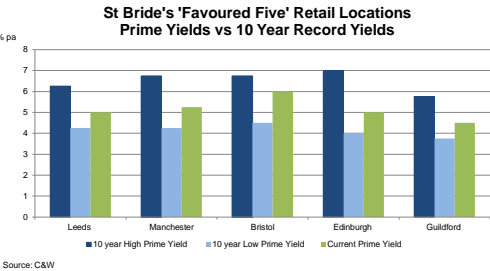
- ▶ Activity in the regions is up 120% on 2011 volumes
- ▶ Overseas demand for prime regional assets is growing

TICKET PRICES ARE RISING



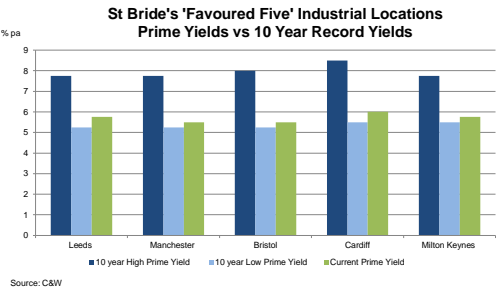
- ▶ Prime regional office yields are close to record low levels

TICKET PRICES CONTINUE TO RISE



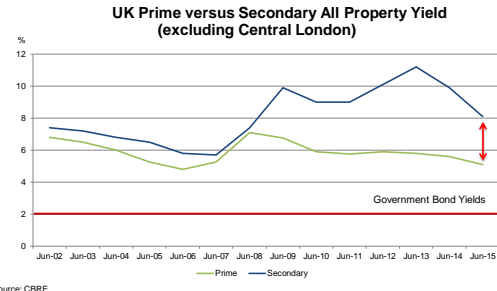
- ▶ Investor demand for prime retail assets has been buoyed by stronger consumer confidence and better tenant trading figures

TICKET PRICES CONTINUE TO RISE



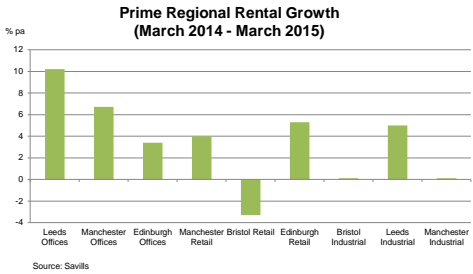
- ▶ Prime industrial yields are now within 25-50 bps of record lows

FIRST VERSUS SECOND CLASS TICKETS



- ▶ The current yield gap is 100 bps wider than the 30 year average
- ▶ This is an opportunity to sell dying assets and locations

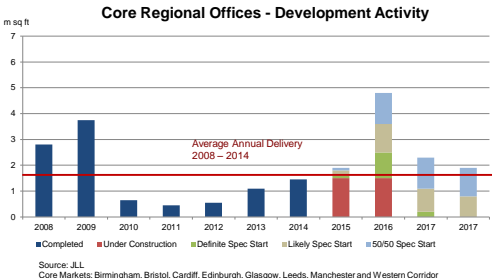
THE END OF SUPER-SAVER DEALS



- Occupational demand is rising at its fastest pace since 1998
- Prime rents are growing and incentives are tightening

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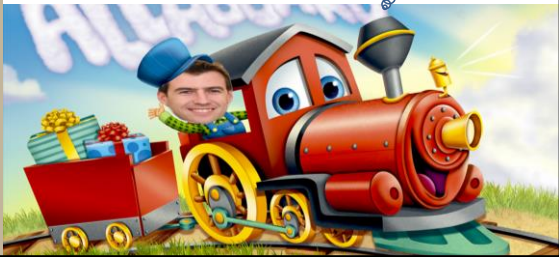
ADDITIONAL ROLLING STOCK AVAILABLE SOON



- Speculative development has returned in a meaningful way to the office and industrial sectors

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CONCLUSIONS



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Roger Parker
EG Funds



Pension Pots – Insights from Australia



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2015 SPORTING PREDICTIONS

5-0 Ashes Whitewash

Wallabies for World Cup glory



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AUSTRALIAN SUPERANNUATION - ORIGINS



Bill Kelly, Paul Keating and Richard Crossman

- Pre-1980's - characterised by inequity
- 1980's – introduced as a solution to wage disputes
- 1992 – Legislated Superannuation Guarantee at 3% of salaries and wages
- Now – 9.5% S G which is set to grow to 12% by 2025

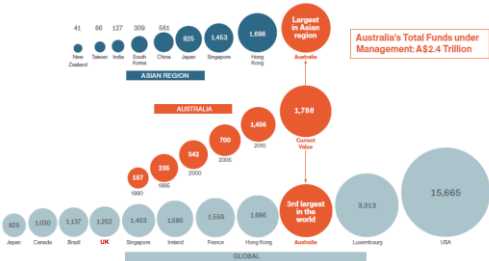
- A world renowned system conceived as a solution to wage disputes in the 1980's, following model proposed by Richard Crossman in 1957

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AUSTRALIAN SUPERANNUATION - TODAY

GLOBAL SIGNIFICANCE OF AUSTRALIA'S INVESTMENT FUND ASSETS POOL

Investment fund assets, US\$ billion, June quarter, 2014

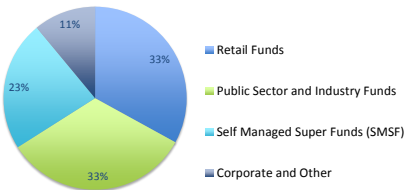


- Currently \$1.7 trillion and projected to grow to \$7.6 trillion within 20 years

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AUSTRALIAN SUPERANNUATION - TODAY

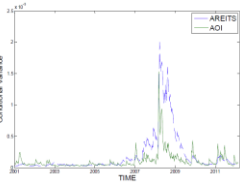
Superannuation Fund Sectors



- Mostly in retail funds or industry/public sector funds, but SMSFs are growing rapidly
- Allocations to property are approx. 10%, depending on investment strategy
- Tax advantages support the growth of Super

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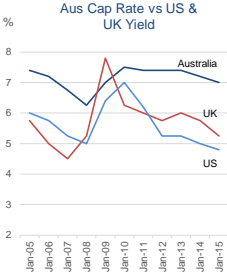
SUPERANNUATION AND PROPERTY



- Increasing focus on short-term performance, fees and liquidity constraints allocations to property
- Residential rental investments dominated by SMSFs
- M&A activity impacting investment in non-core property
- Allocations to offshore investment still relatively small

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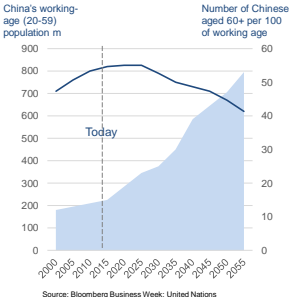
THOUGHTS FOR THE UK



- Australian allocations to UK property could be higher, but currency risk, tax costs and lower risk-adjusted returns are key factors considered by asset advisers

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SUPERANNUATION IN CHINA



- Chinese funds pool is the 5th largest in Asia at \$561 Billion, but is set to grow with the Government following the Australian model

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- Off to a troubled start – under-funded and rapidly aging demographics
- Compulsory Super is coming
- Investment starting to go up the risk curve – property to benefit
- Further Government changes in the wings to support growth

INSIGHTS FROM AUSTRALIA



- A sunny outlook with superannuation providing long term protection

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Richard Saunders
St Bride's Managers US

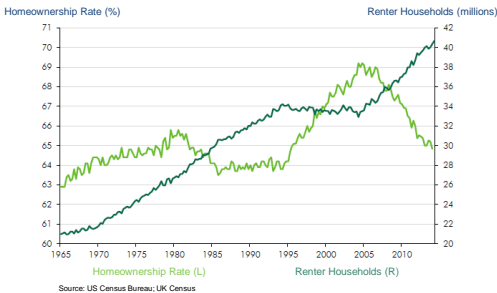


Residential Investment – Insights
from the US



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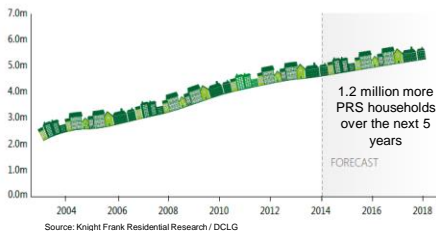
THE US STORY



- ▶ US homeownership rate has tailed off recently to 64%
- ▶ Renter households have doubled from 21m to 41m over the past 50 years

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UK PRIVATE RENTED SECTOR (PRS)

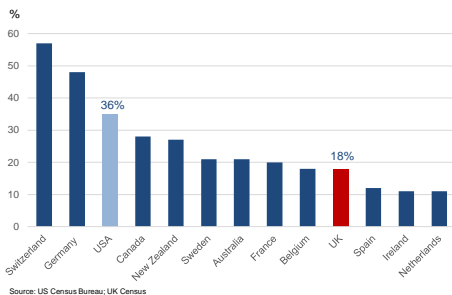


Demand reflects:

- ▶ Affordability - ability to choose housing that better fits the budget
- ▶ Freedom from responsibility for repairs and maintenance
- ▶ Appealing amenities – pool, gym, social spaces, free wi-fi
- ▶ Improved mobility

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HOW DO THE US AND UK PRS COMPARE?



- ▶ The US has 116 million households; 36% are privately rented
- ▶ The UK has 27.8 million households; 18% are privately rented

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THE US PLAYERS

Who owns the Nation's Apartments				
	All Properties	2-4 Unit Properties	5-49 Unit Properties	50+ Unit Properties
Individual Investor	67%	83%	49%	7%
Limited Liability Partnership/General Partnership	7%	3%	10%	30%
Limited Liability Company	13%	6%	22%	42%
Real Estate Investment Trust (REIT)	1%	1%	1%	4%
Real Estate Corporation	1%	0%	2%	3%
Other Corporations	1%	0%	2%	3%
Nonprofit Organisation/Housing Cooperative	2%	1%	4%	9%
Other	7%	7%	11%	3%
Total	100%	100%	100%	100%

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US TAX TREATMENT IS FAVOURABLE

Developer – Sells to PRS investor		\$
Purchase Price		27,000,000
Debt @65% LTV		17,550,000
Equity		9,450,000
Annual Income		1,200,000
Less		
Interest on Loan @4%		(702,000)
Depreciation Straight Line 27.5 yrs		(490,909)
Taxable Income		7,091
Initial Yield		4.4%
For a Tax Payer @35%		6.8%

- ▶ Interest is a totally deductible expense
- ▶ Low cost of debt from GSEs and Life Insurance Companies
- ▶ Development costs (excl. land) are depreciated over 27.5 years
- ▶ The ability to shelter tax provides an advantage for a high tax payer
- ▶ When sold, gains will be taxed at the lower CGT rate of 15%-25%

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INSTITUTIONS ARE ALSO LARGE INVESTORS

Portfolio Weightings %

	PREA Investor Survey 2013	PREA Investor Survey 2004
Office	26.8	33.3
Multifamily	22.3	18.6
Retail	19.5	20.3
Industrial	12.2	16.2
Hotel	6.8	3.2
Agriculture & Timber	0.3	NA
Single Family	0.6	8.4
Other	11.4	8.4
Total	100.0	100.0

Multifamily is US institutions' second largest asset class. The benefits are deemed to be:

- Diversification of income with many tenants ✓
- Shorter leases capture rental increases annually ✓
- Resilient during recessions when the renter cannot afford to move ✓

... and they are prepared to pay for it

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TOTAL RETURN PERFORMANCE

Property Type	5 Yr %	3 Yr %	1 Yr %
Apartment (multifamily)	11.48	10.89	9.45
Retail	10.05	11.70	11.63
Industrial	8.95	11.49	12.31
Office	9.24	10.50	11.60
Total Return	9.81	11.02	11.16

Source: Pension Real Estate Association; Investment Property Databank (2013)

PRS (UK)	13.5	12.6	11.9
All UK Commercial	17.8	10.5	10.9

Source: IPD

- Residential returns have been excellent on both sides of the pond
- What a pity that UK institutions have been so slow to embrace the sector

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STRONG MANAGEMENT DRIVES GREATER EFFICIENCY

USA Apartment Managers

	Units
Greystar Realty	393,079
Lincoln Property Company	164,416
Pinnacle	131,790
Equity Residential	110,063
WinnCompanies	96,955
MAA REIT	82,268
Alliance Residential	82,123
FPI Management	76,564
Avalon Bay Communities	72,564
Top 25	1,963,194
Share of National Stock	10.40%

Source: NAIAC

- Implementation, which is resource and capital intensive
- Scalable systems for technology, purchasing, human resource functions
- More supportive resources, ancillary revenue opportunities, and ability to offer wider range of services

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WHAT'S MAKING THE UK HESITATE?



- Management
 - Dealing with people
 - Dread of the morning's headlines
 - More than 75% of landlords own one property
 - No size to drive efficiencies
- Acquisition
 - Lack of purpose built multifamily
 - Difficult to assemble ownership
 - Lot sizes are relatively small

- The Private Rented Sector Taskforce says it has identified a pool of more than £10 billion which institutions would like to invest in the PRS. A solution must be found

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HOUSE BUILDERS AND DEVELOPERS



- Ivanhoe Cambridge and Apollo invest with Residential Land
- APG have teamed up with Grainger and Delancey
- M3 Capital Partners invested US pension fund money in Essential Living
- M&G has a joint venture with Crest Nicholson

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FUNDS AND CLUBS



- Despite the noise, there are still only a small handful of open-ended residential funds, such as;
M&G, Aviva, Savills Investment Management and Vista

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HOUSING ASSOCIATIONS?

UK Housing Associations	
	Units
Sanctuary Housing	98,000
Places for People	82,000
L&Q Group	71,000
Guinness Partnership	60,000
Affinity Sutton	57,000
Home Group	55,000
Riverside Group	54,000
Wheatley Group	47,000
Notting Hill	28,000
Total Across England	2,500,000
Share of Social Housing	60%

Source: FT

- ▶ They own 28% of all rented homes in UK. They have the infrastructure
- ▶ They already own and/or are developing market rent properties as a way of generating income
- ▶ ADIA invest in Fizzy Living, a wholly owned subsidiary of Thames Valley Housing

- ▶ Housing Associations are showing signs that they intend to answer our call positively

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THE WAY FORWARD



- ▶ Radically increase your weighting to the sector
- ▶ Have conviction to buy. Performance will follow
- ▶ Engage the right operator / property manager
- ▶ Make an industry out of the PRS sector

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Robert Houston
St Bride's Managers



UK Property – is the sun rising or setting?



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1975 SNAPSHOT - POLITICS



67% voted in a referendum to stay in the EEC



The London Hilton was bombed by the IRA

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1975 SNAPSHOT – ECONOMY & BUSINESS



Coal miners accepted a 35% pay rise! They later paid dearly for holding the public to ransom

	Founded
Microsoft	1975
Apple	1976
Google	1998
Facebook	2004

The world order of businesses is almost unrecognizable from 40 years ago

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1975 SNAPSHOT - PROPERTY



Open plan offices were only used by typists and juniors (like me!)



The average house price was £10,846. It is now £193,048

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1975 SNAPSHOT – SPORT / LEISURE



Manchester United were promoted back into the First Division. Chelsea were relegated



Bohemian Rhapsody was released by Queen. It is still ranked as one of the best pop songs ever

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HOW CAN YOU EVER COMPARE?



Pelé

v



Lionel Messi

sb

HOW CAN YOU EVER COMPARE?



Bjorn Borg

v



Roger Federer

You can't! Professionalism and technology improvements do not allow fair comparison. But it will never stop a good debate!

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IT'S ALL RELATIVE

	1975 UK	2015 UK	2015 Swaziland	2015 US
Life Expectancy	72.7 years	81.5 years	48.9 years	78.8 years
GDP per capita	£2,875	£27,311	£3,163	£34,668
Poverty*		£13,920 pa	£300 pa	£15,500 pa
Home Ownership	52%	64%	Complicated!	64%
University Fees	0	£9,000 pa	?	£30,000 pa

* UK Definition: 60% medium income (£23,200)
UN Definition: less than \$1.25 per day

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UK PROPERTY – BETTER OR WORSE?

Better

Everything

Except:

World Ranking

London = Number 1

Worse

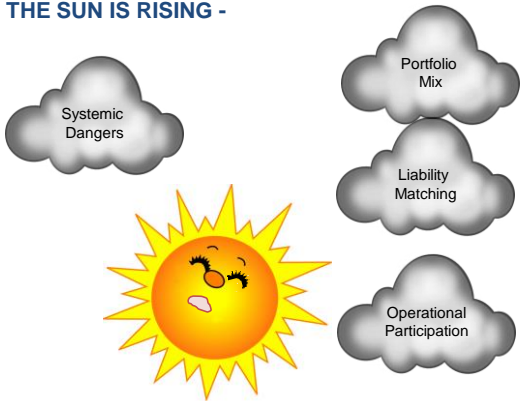
Social:
Reduced trust
Information overload
Speed of decision-making

Structural:
Higher SDLT
Over-regulation
Speed of planning decisions

Market:
Gatekeepers
Property weightings
Lease lengths



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THE SUN IS RISING -



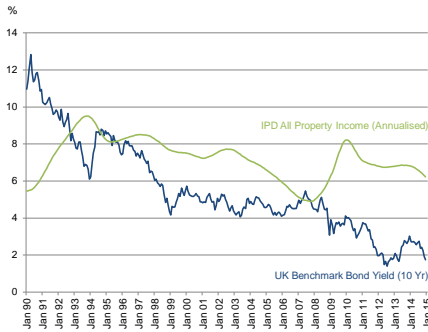
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SYSTEMIC DANGERS

	2013 Seminar	2015 Seminar
Government Spending	£726 bn	£724 bn
Unemployment	7.8%	5.5%
Outstanding Property Debt	£198bn	£165 bn
	2013 Seminar	2015 Seminar
Public Debt	£1.19 tr	£1.36 tr
Personal Debt	£1.42 tr	£1.43 tr
Net Contribution to EU	£7.54 bn	£11.27 bn
UK Population	63.3m	64.1m
Energy Capacity	15%	2-4%

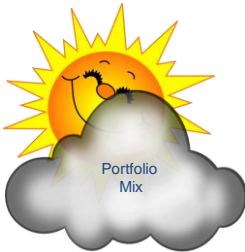
Source: ONS, The Money Charity

SYSTEMIC RISKS – BOND YIELDS



Source: Bloomberg

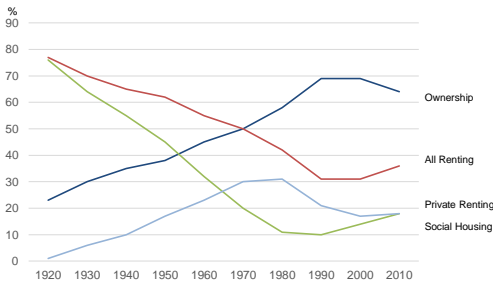
DARK CLOUDS



St Bride's Long Term Recommendation

Location	
Overseas	30-35%
London	30-35%
Regions	30-35%
Assets	
Business-led	
Demographics-led	

PORTFOLIO MIX - RESIDENTIAL



Source: Department for Communities and Local Government Census

DARK CLOUDS – LIABILITY MATCHING



- ▶ Pension fund property weightings in DB schemes are too low
- ▶ We have the tools to manage DC and SIPP investments through REITS and PAIFs. Challenges include:
 - The public's market knowledge
 - Surges in demand
 - Daily pricing and liquidity
 - Costs of entry
- ▶ Other approaches include:-
 - Buy-to-let
 - Investment clubs / syndicates
 - Crowd funding

DARK CLOUDS – OPERATIONAL PARTICIPATION



- ▶ Investors have been spoilt by the UK's long leases
- ▶ Some of the best returns will come from assets where participation / appreciation of the underlying operations is essential
 - Hotels
 - Private rented housing
 - Student accommodation
 - Healthcare and retirement
- ▶ We need a new generation of best-in-class operators

