

Robert Houston

St Bride's Managers UK

Investment Seminar 2013

ST BRIDE'S 'SCHOOL REPORT'

✓ SB Alliance – Morgan, Oxygen, Shor

✓ SB Managers

- UK & Europe
- North America
- Global
- (Asia Pacific)

✓ Alliance Assets under Management have reached £557 million

✓ Boost's grants now exceed £1.1 million

ST BRIDE'S STRATEGIC ALLOCATIONS

▶ Our domestic and overseas strategy is City-based

▶ Key long-term drivers are demographics, political, social and regulatory

▶ London is the world's Number 1 City

ST BRIDE'S STRATEGIC ALLOCATIONS

World Cities Top 20 Strategic Weighting 30%			UK Regions Top 30 Strategic Weighting 35%		
(London)	Hong Kong	New York	Wokingham	Edinburgh	Norwich
Paris	Singapore	Toronto	Reigate	Cardiff	Bristol
Geneva	Tokyo	Los Angeles	St Albans	Warwick	Glasgow
Stockholm	Sydney	Chicago	Windsor	Cambridge	Warrington
Amsterdam	Seoul	Washington DC	Guildford	Macclesfield	Exeter
Berlin	Melbourne	Boston	Bracknell	Leeds	Sheffield
Munich		San Francisco	Chelmsford	Manchester	York
Wildcards:			Milton Keynes	Aberdeen	Derby
Madrid			Basingstoke	Oxford	Solihull
Shanghai			Brighton		
			Wycombe		
			Reading		

▶ We recommend a 'customised blend' of:

- 'Traditional' Commercial and 'Alternative' asset types
- Direct, unlisted funds / clubs and listed securities

London strategic weighting 35%

DANGER 1

UK GDP and Public Debt

Source: ONS

▶ Public debt is currently 76% of GDP

DANGER 2

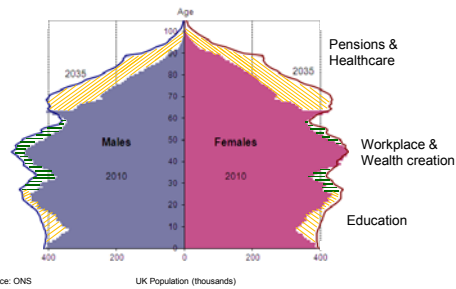
UK Government Spending

£ billions	1980	1990	2000	2010	2012	2015 est
Pensions	0	0	66	115	127	150
Health	12	29	50	118	121	133
Welfare	24	53	59	110	115	116
Education	12	25	43	88	92	103
Defence	14	23	28	43	46	44
Other	42	71	92	186	187	183
TOTAL	104	201	338	660	688	729

Source: ONS

▶ Given the UK's demographics, it will be virtually impossible to stem the growth in pensions, healthcare and educational spending which represents 49.4% of the total

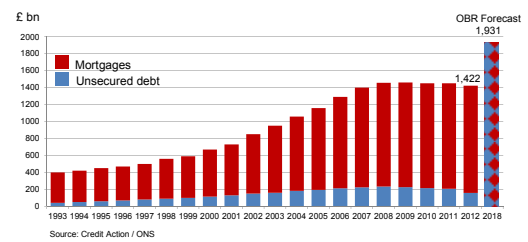
DANGER 3 Shape of population 2010 - 2035



- ▶ The population is projected to grow by 11 million people by 2035
- ▶ There will be massive pressure on the wealth creation age-group to fund the young and elderly over the next 20 years

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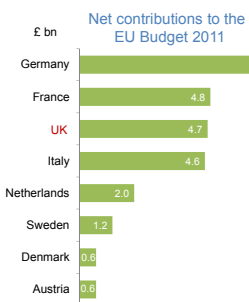
DANGER 4 UK Personal Debt



- ▶ Total outstanding personal debt £1,422 billion
- ▶ Outstanding unsecured debt £158 billion
- ▶ Current household debt (inc mortgages) £53,995
- ▶ Average consumer credit per UK adult £3,208

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DANGER 5 The European Dimension



- ▶ In 2011 (latest) the UK's contribution was:-
 - National contribution €11.3 bn
 - Less rebate €3.6 bn
 - Less receipts €3.0 bn
 - Net contribution €4.7 bn
- ▶ The UK has always been a net contributor
- ▶ The threat of a collapse of the Euro is still real
- ▶ The UK's 'in-out' vote in 2017 will be a dangerous moment

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DANGER 6 Energy Shortfall



Alistair Buchanan, Ofgem Chief:

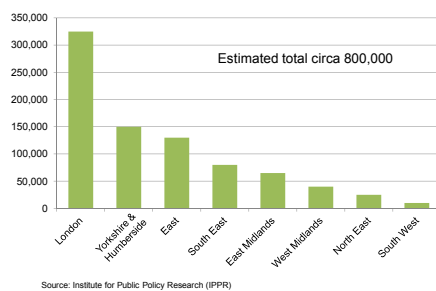
"Currently the UK can generate more than 15% more energy than its needs..."

This will drop to below 5% by 2015... as 10% of the UK's capacity will shut down to meet EU-imposed emission targets

[We are] uncomfortably close to... 1970's style blackouts"

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DANGER 7 Housing Shortfall over next 12 years



- ▶ Our planning process is unhelpful. We are not building what we need, where we need it

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DANGER 8 UK Civil Unrest



- ▶ 7.8% (2.52m people) are unemployed compared to the 2006-13 average of 7%. This includes 950,000 young people
- ▶ The rich-poor divide is widening (OECD)

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DANGER 9 Outstanding UK Property Bank Debt

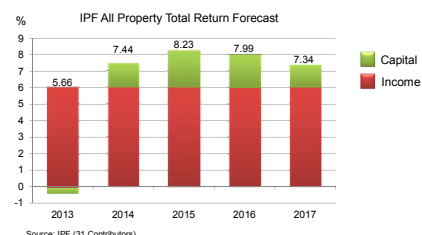
LTV	Outstanding Bank Debt	% of Total	Status
Over 100%	£42 bn	20%	Under water
86-100%	£30 bn	14%	At serious risk
71-85%	£35 bn	16%	Dangerous
51-70%	£78 bn	36%	Uncomfortable
0-50%	£29 bn	14%	Comfortable
Total	£214 bn	100%	

Source: Bank of England, De Montfort University

- ▶ Outstanding property bank debt is £214 billion, down from £249 billion in 2011
- ▶ Property debt represents 11% of all bank loans
- ▶ Another fall in valuations would be very testing for the banks

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DANGER 10 Property Valuations



- ▶ Secondary assets are still a long way short of being marked down to market levels
- ▶ We hazard that portfolios may be 10% (or more) over-valued
- ▶ The IPF Consensus forecast is hopelessly optimistic

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PERFORMANCE

		Total Returns % pa		
		1 year	3 years	5 years
Property	Direct	3.0	6.7	1.4
	Securities	17.4	8.2	-5.4
Equities		15.5	8.0	6.3
Bonds		6.0	9.6	8.3
Inflation		3.3	4.1	3.2

Source: IPD, MSCI, RPI

- ▶ Property has failed to deliver satisfactory returns over the past 5 years
- ▶ Performance will continue to disappoint until the market confronts:
 - Refinancing schedules
 - Mark-to-market valuations
 - Asset capex needs and planned maintenance

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THE TIME BOMB IS TICKING



- ▶ Until the market addresses these issues, we recommend a **NEUTRAL** weighting to the sector
- ▶ Failure to tackle the problems would be **EXPLOSIVE!**
- ▶ We have 5 years to deliver, or...

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THE WAY FORWARD?



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Dominic Hammond
St Bride's Managers UK

The Global Picture



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THE GLOBAL PICTURE



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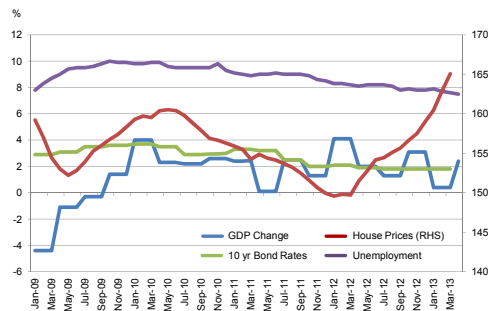
THE US



- ▶ The US is looking strong
- ▶ Their public debt burden is not a problem
- ▶ However, there are risks

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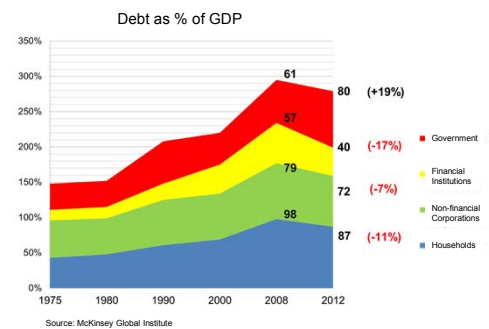
THE US – DOING NICELY



- ▶ Things are looking healthy in the US

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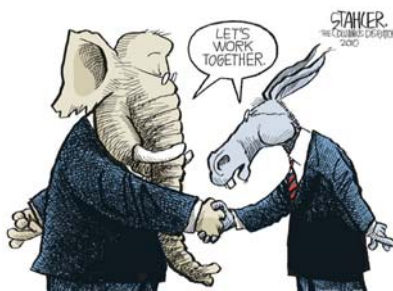
THE US – HOW HEAVY IS DEBT?



- ▶ Consumers and corporates have de-levered and are ready for growth

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THE US – RISKS



- ▶ Political risk is significant but may be over-stated

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EUROPE



- ▶ Expect more Eurozone gloom
- ▶ The UK is relieved to be outside the EMU

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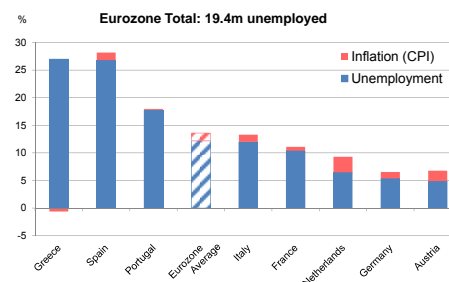
EUROPE – RUNNING IN QUICKSAND

	Front-loaded Austerity?	QE (money supply)?	Recovering?
US	No	Yes	Yes
UK	Yes	Yes	Not really
EMU	Yes	No	No

- ▶ No money supply combined with austerity is making things tough in Europe

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EUROPE - MISERABLE

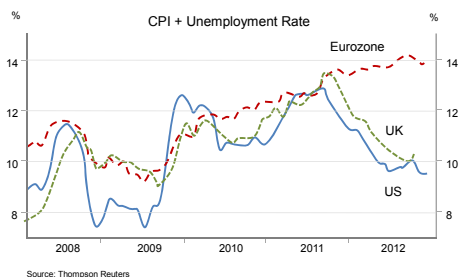


Source: Eurostat

- ▶ Europeans' purchasing power has been eroded by low wages, unemployment and persistent inflation

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EUROPE – MORE MISERABLE THAN MOST



Source: Thompson Reuters

- ▶ Europe has done nothing to relieve its misery

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EUROPE – OPPOSITES DON'T ATTRACT

"Which EU nation is most likely to be named...."

Views in:	Most Trustworthy	Least Trustworthy	Most Arrogant	Most Compassionate
Britain	Germany	France	France	Britain
France	Germany	Greece	France	France
Germany	Germany	Italy	France	Germany
Italy	Germany	Italy	Germany	Italy
Spain	Germany	Italy	Germany	Spain
Greece	Germany	Germany	Germany	Greece
Poland	Germany	Germany	Germany	Poland
Czech Republic	Germany	Greece	Germany	Czech Republic

Source: PEW Research Centre

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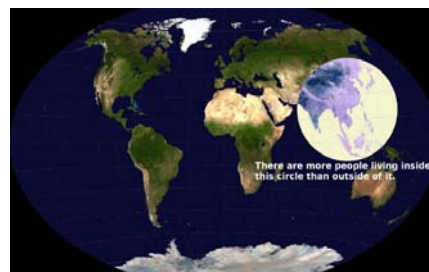
ASIA PACIFIC



- ▶ China - the next chapter (more growth)
- ▶ Japan - time for something different
- ▶ World cities from S.E. Asia? Yes – and soon

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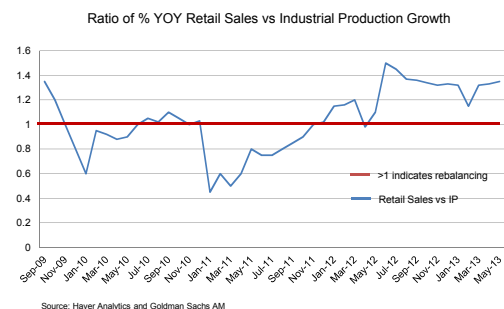
ASIA PACIFIC



- ▶ Asia Pacific is the growth engine of world

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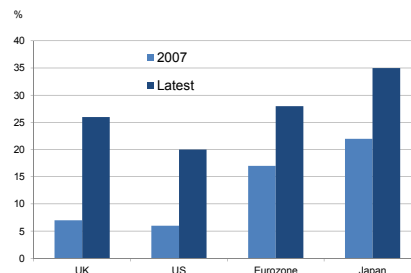
CHINA – REBALANCING ACT



- ▶ China is now driven by domestic demand

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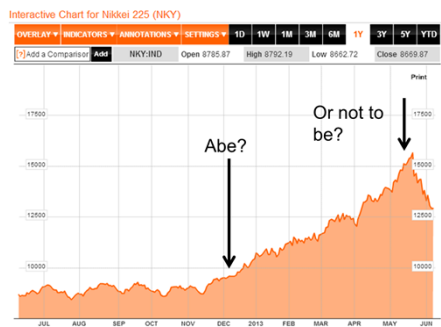
JAPAN – ABENOMICS: “I’M ALL IN”



- ▶ Massive balance sheet expansion in Japan – and more to come

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JAPAN – ABENOMICS: “I’M ALL IN”



- ▶ The stock market has fallen sharply over the last month following significant improvement since Christmas

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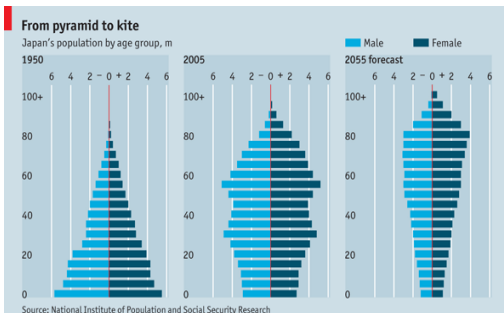
JAPAN – ABENOMICS: “I’M ALL IN”



- ▶ They are even using girl bands to try and sell government bonds

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JAPAN – NOT GETTING ANY YOUNGER



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WHAT SHOULD I DO WITH MY MONEY?



Nick Alosio – Yahoo!

- ▶ Hunt for growth
- ▶ Hunt for *real* yield
- ▶ Buy real estate?

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REITs

Historic Total Returns

	Global Real Estate	Global Equity	Global Bonds
1 Yr	28.94%	16.54%	4.32%
3 Yrs	13.96%	7.56%	5.17%
5 Yrs	1.31%	-0.6%	5.44%
10 Yrs	11.88%	9.08%	5.98%
15 Yrs	8.29%	4.7%	5.87%
20 Yrs	9.87%	7.39%	6.33%

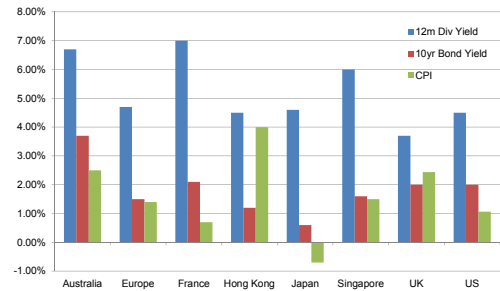
Source: S&P DP, S&P 500, MSCI World, Barclay's U.S. Aggregate Bond, Barclay's Global Aggregate Bond

- ▶ REITs should continue to outperform

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REITs

REIT Income Return



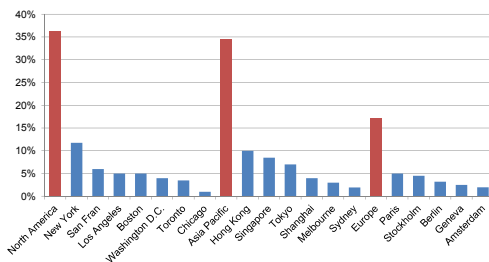
Source: Bloomberg, Factset and CBRE Clarion.

- ▶ REITs give you a real income return

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BUYING CITIES

% of Fund by City

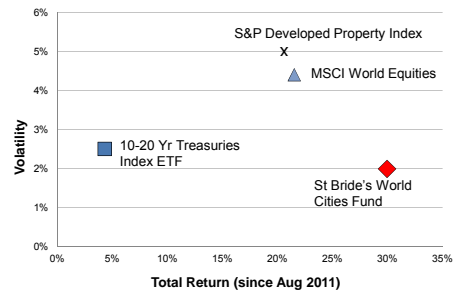


Source: St Bride's Managers

- ▶ You can buy cities rather than regions (and we have)

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BUYING CITIES

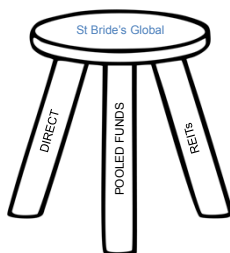


Source: St Bride's Managers, Bloomberg

- ▶ Returns have been good

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CONCLUSIONS



- ▶ Hunt for growth and real yield
- ▶ Increase allocation to World Cities in the US and Asia Pacific and decrease Europe
- ▶ Integrate listed, pooled and direct real estate strategies

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Richard Saunders
St Bride's Managers US

London – Through the eyes of a New Yorker



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WHAT ALL NEW YORKERS KNOW ABOUT LONDON



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WHAT NEW YORK PROPERTY OWNERS KNOW ABOUT LONDON



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WHAT NEW YORKERS ACKNOWLEDGE ABOUT LONDON

London – Number 1 World City

Theme	Ranking (out of 20)	Top 3 Ranking Cities
Access	1st	London (1), Paris (2), Singapore (3)
Knowledge	1st	London (1), Paris (2), New York (3)
Economy	1st	London (1), Paris (2), New York (3)
Business	2nd	New York (1), London (2), Hong Kong (3)
Property	2nd	Hong Kong (1), London (2), Paris (3)
Living	8th	Geneva (1), Singapore (2), Amsterdam (3)
Risk	8th	Stockholm (1), Geneva (2), Hong Kong (3)
Constitution	11th	Singapore (1), Hong Kong (2), Geneva (3)

Source: Ramidus and St Bride's Managers

- New Yorkers struggle not being Number One!

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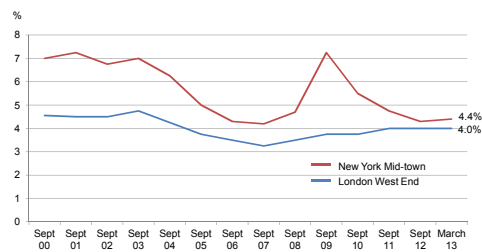
PROPERTY INVESTORS

US Property Investors in London	UK Property Investors in NYC
Blackstone Carlyle Group Hines Lone Star Rockpoint Westbrook Angelo Gordon AREA Property Partners Tishman Speyer RREEF W.P. Carey & Co Starwood Capital Fortress Investment Group	

- ... and these names barely scratch the surface

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CLASS A OFFICE YIELDS

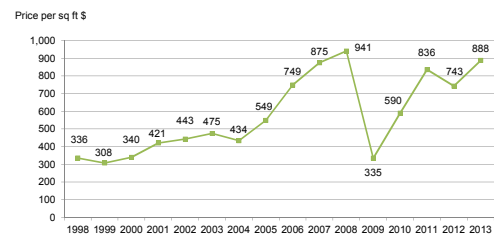


Source: JLL

- Cap Rates in London and New York are close to historic low levels

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NEW YORK OFFICE CAPITAL VALUES



- Capital values in New York are returning to peak levels... as in London
- Rental growth is now required to achieve target returns

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FOLLOW DEMAND - US

Industry	Employment Base
State Government	Contracting
Federal Government	Contracting
Media-print	Contracting (Rightsizing)
Finance / banking	Contracting (Rightsizing)
Law firms	Contracting (Rightsizing)
Consulting	Contracting (Rightsizing)
Accounting	Contracting (Rightsizing)
Telecom	Stable
Retail / consumer goods	Stable
Green energy / clean technology	Stable
Education	Growing
Media digital and TV	Growing
Real Estate (Residential)	Growing
Technology	Growing
Natural Gas / Oil Energy	Growing
Biotech / pharmaceutical	Growing

- Main growth sectors are TMT, education and healthcare
- Growth is driven by the demographics of the Baby Boomer and Baby Echo, and their move into urban areas

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FOLLOW DEMAND – TMT SECTOR



- Silicon Valley to Silicon Alley; Silicon Fens to Silicon Roundabout
- The large "household name" technology companies are profitable
- Their profits are being driven by advertising revenue. The rates they can command are driven by eyeballs
- The "M" is in New York City and London

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IN NEW YORK IT IS SILICON ALLEY



- TMT is focused on Broadway and Fifth Avenue in the Flatiron District

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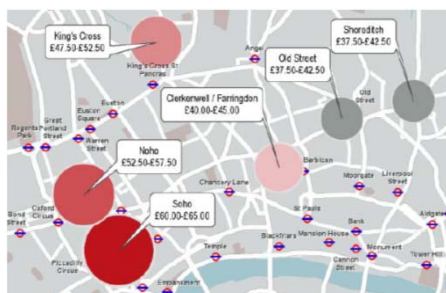
RENT MATTERS



- Rent does matter – Microsoft and Yahoo have both moved north
- Some will take advantage of low interest rates to buy, such as Google

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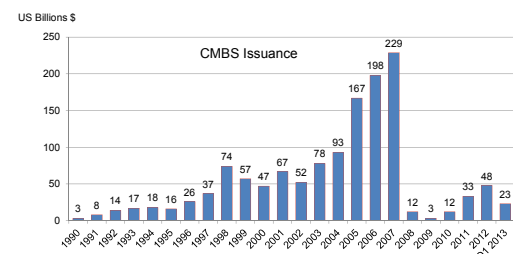
LONDON IS A SIMILAR STORY



- Rents around Silicon Roundabout will inevitably rise

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PROPERTY LENDING



- Debt is available from life companies, investment banks, balance sheet lenders, hedge funds, private individuals and REITs
- Rates are inexpensive for leased properties at circa 4.0% pa
- Debt is expensive for all other situations with Hedge Funds and Private Individuals stepping in – typically at circa 12% pa

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BUSINESS CONFIDENCE AND TOURISM



- ▶ New York City attracted 52 million visitors in 2012, approx 33.33% of all visitors in the USA
- ▶ About 30 million visitors are attracted to London. Just over 50% are from overseas

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RETAIL RENTS

Markets	Q1 2013 US\$ Per Sq Ft Per Annum
Hong Kong	4,328
New York	2,970
London	1,053
Paris	1,050
Sydney	1,018
Tokyo	895
Melbourne	851

Source: CBRE Research, Q1 2013

- ▶ Retail rents in New York City is almost 3 times the levels in London
- ▶ However the opportunities are the same

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RETAILERS WILL EXPAND INTERNATIONALLY WITH LONDON THE FIRST STOP



- ▶ Flagship Stores can change established retail trends
- ▶ Move to urban areas is being fuelled by the Baby Echo and Baby Boomers

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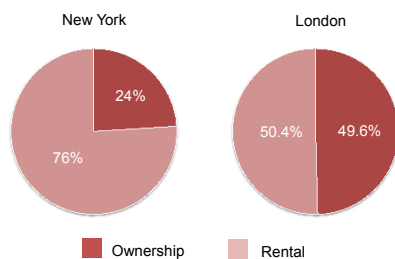
LIVE / WORK / PLAY CULTURE



- ▶ US culture is moving towards an urban lifestyle
- ▶ Employees require proximity to public transport, amenities and rental housing
- ▶ Employers need access to talent pool and cost-effective space
- ▶ Owners need to embrace the change

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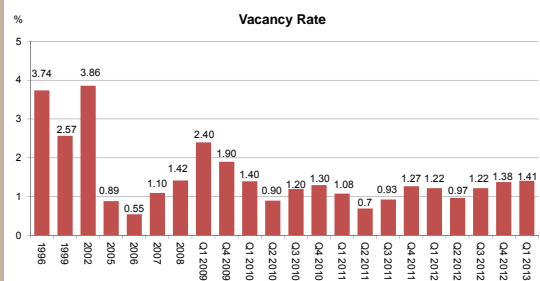
NEW YORK - OWNERSHIP / RENTAL INVENTORY



- ▶ Home ownership in New York is 24% compared to London at 49.6%
- ▶ Renting allows greater mobility of labour

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NEW YORK CITY RESIDENTIAL MARKET



Source: Bloomberg

- ▶ Low vacancy and strong demand is driving rents upwards, as it is in London

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FROM NEW YORK, WE SEE...



- ▶ London's improving business growth
- ▶ Continued international capital attracted by the UK's transparency
- ▶ Good prospects for rental growth in:
 - Offices (especially West End)
 - Prime Retail
 - Residential
 - Hotels
- ▶ London is **THE** city in Europe
- ▶ A continued opportunity to take advantage of domestic inertia

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Ian Houston
St Bride's Managers UK

UK Regional Allocations Time for a rethink?



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ESCAPE TO THE COUNTRY?

"The time is right for selective regional strategies" CoStar, February 2013

"Regional cities outdo London" May 2013, Property Week

"Regions pulling in investors as London market overheats" PWC, March 2013

"St Bride's debuts with £20m Yorkshire fund", May 2013, Property Week

"Investors eyeing active regional office markets outside London" Knight Frank, May 2013

"Secondary to outperform prime from 2014" DTZ, February 2013

"UK secondary primed for recovery" IPE, November 2012

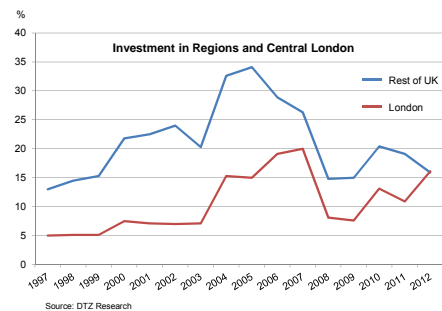
"Secondary property offers compelling value" Professional Pensions, May 2013

"Capital interest on increase in region", June 2013, The Business Desk

"London's cash overflow will find outlet in regions" Property Week, June 2013

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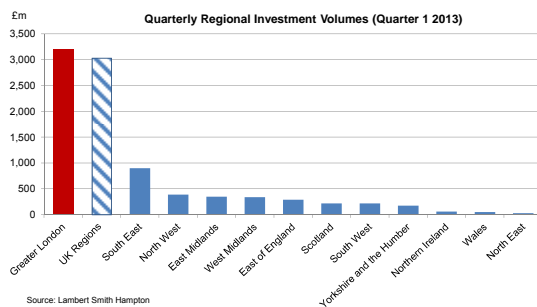
INVESTORS BACK LONDON PROPERTY



- ▶ London attracted over half of all investment during 2012
- ▶ But the regions have still attracted billions!

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REGIONAL INVESTMENT VOLUMES

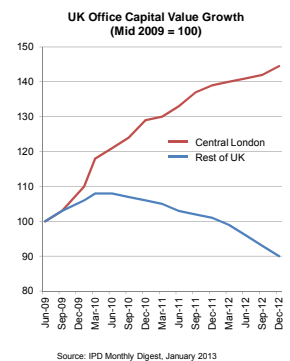


- ▶ The story of subdued regional investment persists into 2013

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DOES LONDON REMAIN ATTRACTIVE?

- ▶ Competition is fierce
- ▶ Yields remain low
- ▶ Marginal distinction between 'prime' and 'secondary'
- ▶ Prime is not 'risk-free'



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THE HUNT FOR YIELD GATHERS PACE

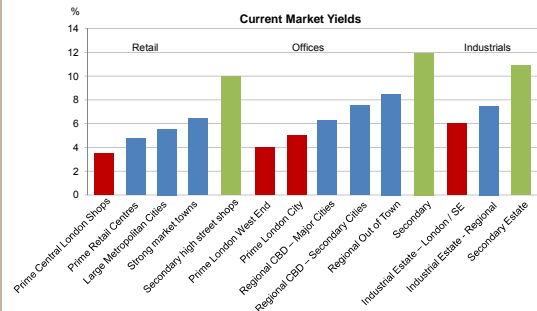


*We're going on a yield hunt!
We're going to catch a big one!*

- ▶ There are early signs of an increasing appetite for higher income
- ▶ Monetary policy remains positive for investors

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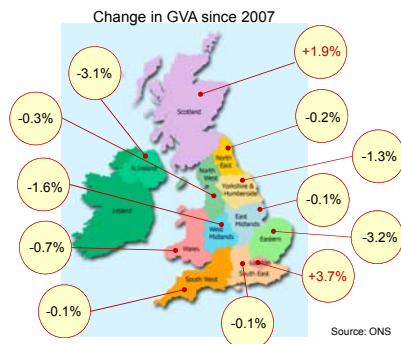
MIND THE GAP!



- ▶ The yield spread between properties in London and the regions is as large as it ever has been

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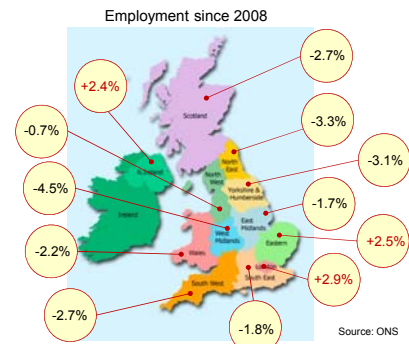
1. LONDON WIDENS GAP WITH REGIONS



- ▶ The north-south divide has widened significantly since 2008

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1. LONDON WIDENS GAP WITH REGIONS

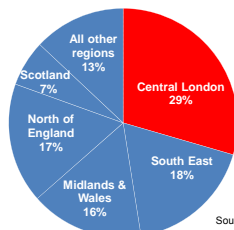


- ▶ The north-south divide has widened significantly since 2008

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2. LEGACY DEBT ISSUES REMAIN

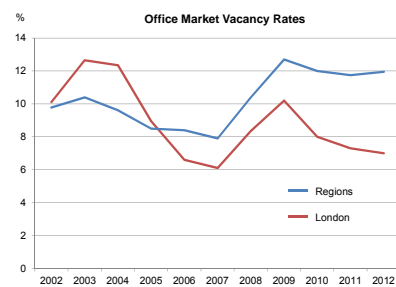
Regional Split of outstanding UK real estate loans



- ▶ 70% of the UK's outstanding real estate loans is secured against regional properties
- ▶ Bank deleveraging will constrain capital growth prospects
- ▶ New lending is scarce in the regions

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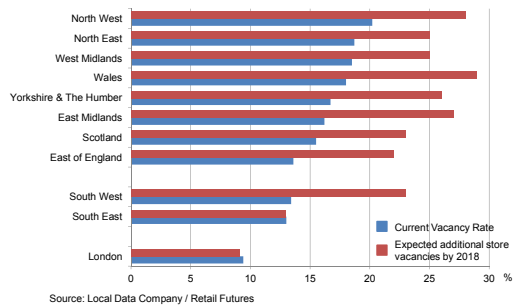
3. OFFICE VACANCY RATES INCREASING



- ▶ Regional vacancy rates are too high to promote rental growth

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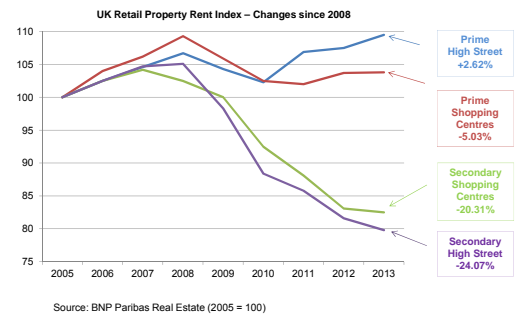
3. RETAIL VACANCIES ARE AT A RECORD HIGH



- ▶ Store vacancy rates across the country have increased from an average of 5.4% in December 2008 to 14.2% today
- ▶ A further 220,000 shops are expected to close by 2018

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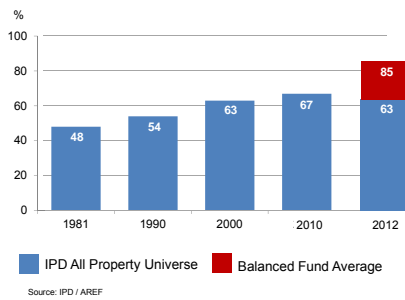
4. BEWARE AS OVER-RENTING IS RIFE



- ▶ Secondary rents are at least 20%-25% below the 2008 peak

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5. REGIONAL WEIGHTINGS



- ▶ Most UK institutions are already overweight to the regions
- ▶ Improving sentiment is an opportunity to scale down exposure

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6. INTENSIVE UNDERWRITING IS REQUIRED



- ▶ Traditional 'Net Initial Yield' valuations are dangerous other than for 15 year leases
- ▶ "Triple Net" analysis is time consuming and demands a much greater degree of scrutiny

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TREAD VERY CAREFULLY

- ▶ A focused town / city approach is required
- ▶ The long term sustainability of the location is crucial
- ▶ Increase allocations to alternative forms of real estate



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TREAD VERY CAREFULLY

UK Regions Top 30			UK Regions Bottom 35		
Edinburgh	Manchester	Exeter	Maidstone	Swansea	Leicester
Cardiff	Aberdeen	Milton Keynes	Newcastle	Huddersfield	Northampton
Wokingham	Guildford	Sheffield	Nottingham	Peterborough	Portsmouth
Reigate	Oxford	York	Slough	Crawley	Luton
St Albans	Norwich	Basingstoke	Wakefield	Swindon	Bournemouth
Windsor	Bristol	Brighton & Hove	Sunderland	Telford	Rotherham
Warwick	Bracknell	Wycombe	Bradford	Birmingham	Southampton
Cambridge	Chelmsford	Derby	Liverpool	Coventry	Newport
Macclesfield	Glasgow	Reading	Poole	Ipswich	Plymouth
Leeds	Warrington	Solihull	Preston	Colchester	Southend
					Hull
					Gloucester
					Dudley
					Stoke
					Walsall

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CONCLUSIONS

- ▶ High yields are not a good enough reason alone to invest in the regions
- ▶ Time to switch out of dying assets / locations and re-invest in assets / locations of the future
- ▶ A huge challenge lies ahead for investors



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Alternative real estate performance

Mark Weedon, IPD



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IPD overview

Global leader in real estate performance analysis and risk services

Established in 1985

In over 30 markets worldwide

Employing over 300 professionals

IPD's mission is to increase real estate market transparency through independent and comparable performance analysis with investors, managers, consultants and occupiers globally."



Twice received the Queen's Award for international trade in 2005 & 2010

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Agenda

- The UK property market according to IPD
 - Size and performance by sector
- Factors affecting commercial property performance and the impact on income
- A closer look at "Alternative" real estate compared to core assets
 - Headline returns
 - Risk reward
- Why have land assets outperformed other asset classes?

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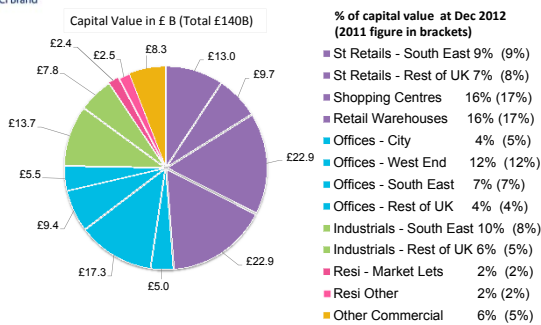
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2012 IPD all property index structure Trend toward alternative sectors?



Source: IPD

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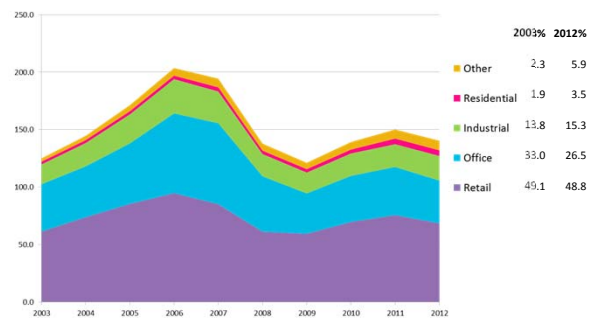
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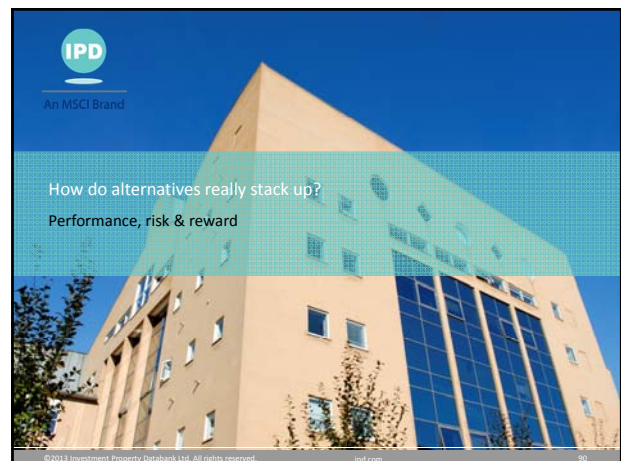
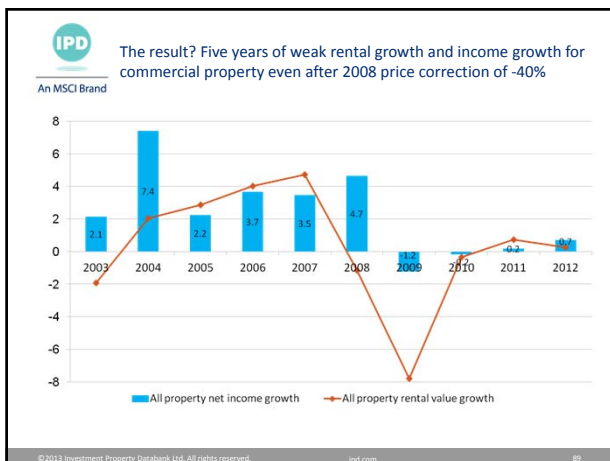
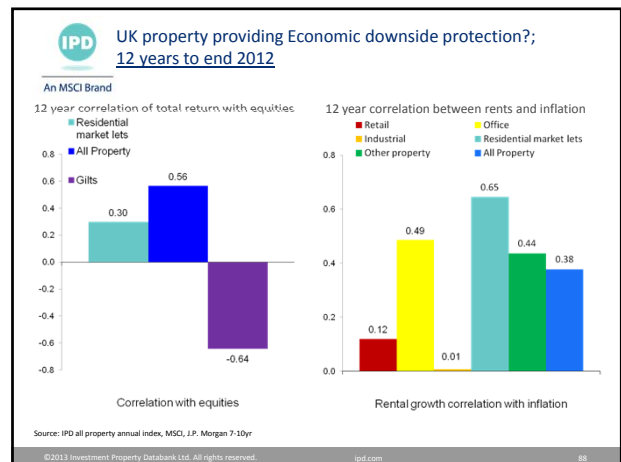
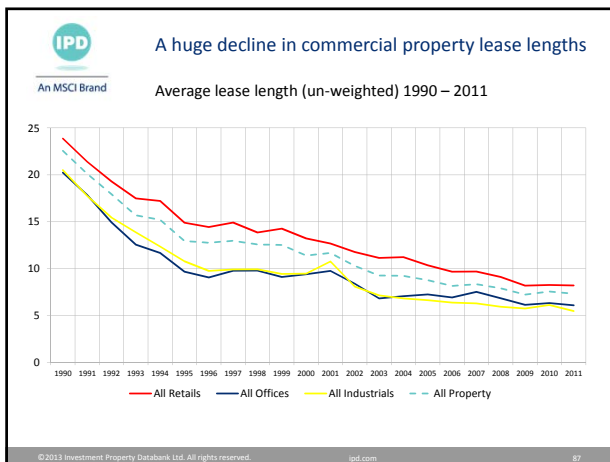
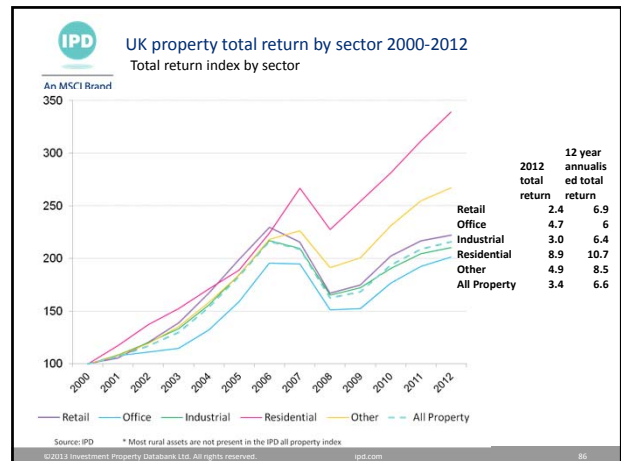
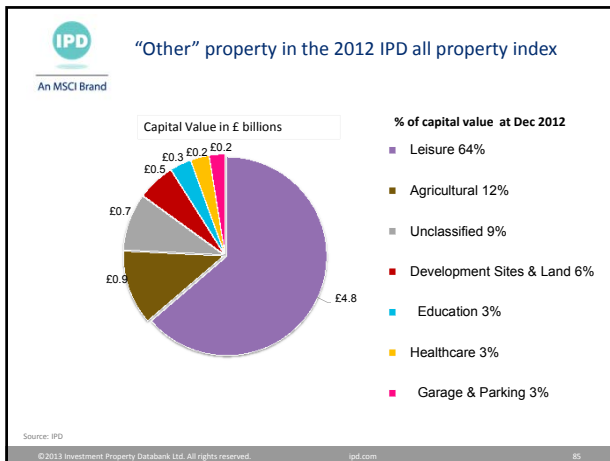
Evolution of IPD annual index sample 2003-2012 Total value of sectors in £B

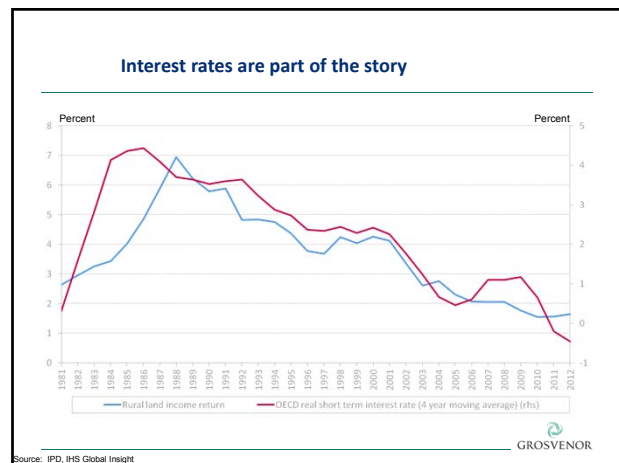
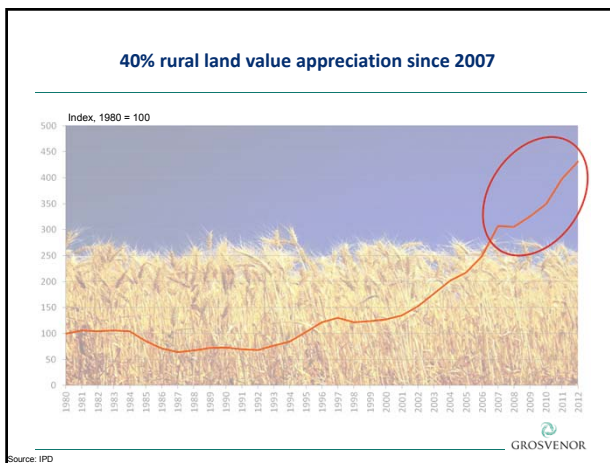
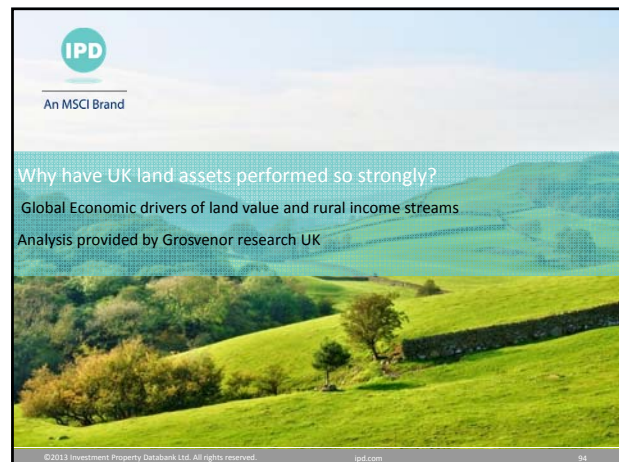
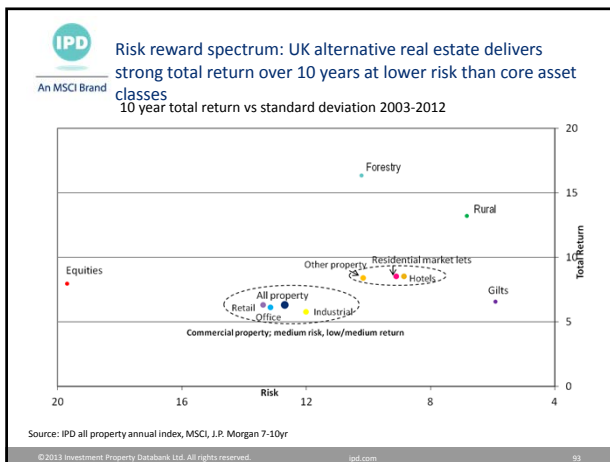
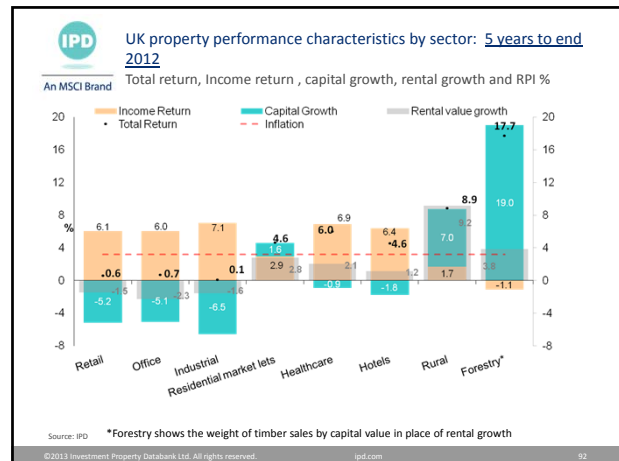
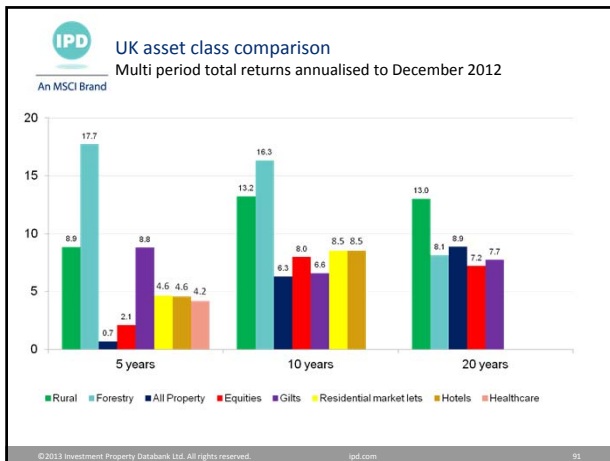


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Closer correlation with world food prices



Source: IPD, United Nations FAO

GROSVENOR



Conclusions

Is the investment case made?

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- Yes, in principle with favourable long term performance characteristics and risk/reward profile compared to core asset classes with hedging capabilities due to lower correlation with equities.
- Different balance of performance available across different asset classes, i.e. Long term stable income in healthcare versus capital growth of residential and land.
- Still questions over opportunities of sufficient scale in many areas, particularly UK land but this area more than any other continues to offer downside protection as well as highly desirable tax exemptions.

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IPD alternative real estate conference, followed by Dana international Timberland investment conference

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9th-11th October 2013, London

Join IPD and property investment experts for an insight and education into the importance of investment into alternative sectors and how to access the following asset classes:

Infrastructure
Healthcare
Hotels
Residential
Renewable energy
Social housing
Student accommodation
Timber

For further information or to learn more about our new UK events season ticket visit IPD.COM/events or contact events@ipd.com or mark.weedon@ipd.com

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SUMMARY



London
US & Asia Pacific

UK Regions

Europe

REITs
Alternatives

The outlook is still precarious

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STRATEGIC WEIGHTINGS

		UK		Overseas		
		Regions	London	Europe	N America	Asia-Pac
SB Neutral Long Term Weights		35	35	10	10	10
SB Recommended Weights 2013-17		30 ⁽⁴⁾	35	7 ⁽³⁾	14 ⁽⁴⁾	14 ⁽⁴⁾
Current Weights		85	15	0	0	0
Rebalance	Y ¹	70	20	0	5	5
	Y ²	60	24	2	7	7
	Y ³	50	27	3	10	10
	Y ⁴	40	31	5	12	12
	Y ⁵	30	35	7	14	14

- In most cases, UK investors need to make radical adjustments to their property portfolios... Asset types, location and styles
- If you haven't already done so.... Start now, or face the consequences

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