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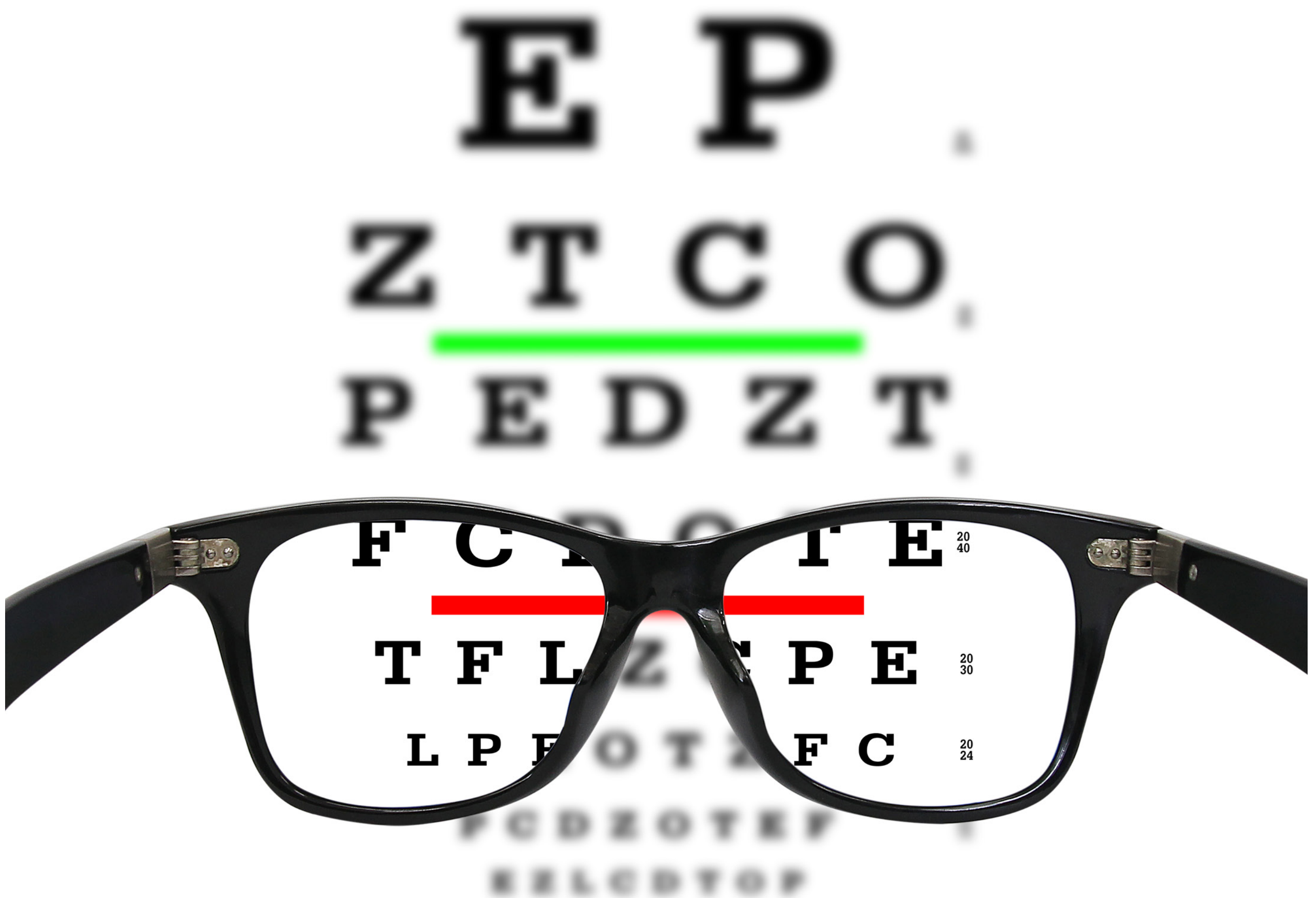
Visions for 2020



Bull and Bear make their recommendations for 2020

February 2020

Visions for 2020

Bull and Bear met up at the MSCI Index release in London to discuss the year that was 2019 and make their recommendations for the year ahead. This publication records their discussion.

Bull: Now then Bear. A new year. A new decade. And a new commission from those good people at St Bride's Managers. Exciting times.

Bear: 2020. It can't be any worse than last year though, can it? How dull and boring was 2019? Especially the second half. Turgid. Still, on the upside, I suppose I'm pleased that we're still being commissioned into our fifth decade. The 80's, 90's, noughties, 10's and now the 20's!

Bull: Indeed, but I see that St Bride's have admonished us on last year's predictions and want us to concentrate more on our recommendations this time.

Bear: That's a bit harsh.

Bull: Not really. The truth is, we could have fared better. Much better. In fact, we only got about half our predictions right!

Bear: Fair enough, but much of that was down to our sporting predictions. We scored a pretty miserable four out of ten, thankfully boosted by two correct answers on a single glorious day back in July, with England's unforgettable Cricket World Cup victory and Novak Djokovic's epic victory over Roger Federer at Wimbledon.

Bull: We can't just blame it on our sporting predictions though. With our political predictions, we again scored pretty poorly. We correctly predicted that Mrs May would not be Prime Minister by the end of December, but we did predict that Brexit would have taken place by 31st March 2019, that there wouldn't be a General Election in 2019 and that Michael Gove would be our next Prime Minister.

Bear: Whoops! Still, there wouldn't have been too many people out there who, at the start of 2019, would have predicted the Conservatives winning an election by such a large majority, including seats in constituencies like Blyth Valley for the first time.

Bull: Very true. Dare we touch on our economic predictions then?

Bear: Another distinctly average performance. But, looking on the bright side, at least GDP growth for the year exceeded our 1.20% prediction. Despite all the headwinds, the UK economy grew by 1.40% in 2019. An improvement on the previous year. That said, the UK economy did not grow at all in the final three months of the year suggesting growth is anaemic at best.

Bull: Yes, but the base rate is 0.75% and UK 10 Year Government Bond Yields were below 1.30% at the end of 2019…. just as we predicted!

Bear: It's a shame really. St Bride's don't even want us to make any sports predictions.

Bull: What? No sport? How miserable. I don't care what they say, or what they want. I'm still going to make my dozen sporting predictions and they can jolly well enjoy them. I know one particular journalist has said that this is his favourite research publication of the year... because it contains sport! I can't let him down, can I?

Bear: St Bride's probably won't mind. They are all sports-mad. 2019 was a massive year for sport and 2020 promises to be just as intriguing, doesn't it?

Bull: You're not wrong. Euro 2020, Wilder vs Fury II, The Hundred, The Ryder Cup and Men's Twenty20 World Cup are just a selection of events to look forward to this year. But the stand-out events have to be the Olympics and the Paralympics in Tokyo.

Bear: You should make sure you include the Premier League winners in your predictions. I reckon you might get that one right if you predict Liverpool given their current massive lead.

Bull: Good idea. But coming back to St Bride's request for no predictions. Why the change in request from previous years?

Bull's Sporting Predictions for 2020

	Competition	Winners
1	The Premier League	Liverpool
2	Euro2020	England
3	Six Nations	France
4	The Masters	John Rahm
5	Ryder Cup	USA
6	Men's T20 World Cup	Australia
7	Women's T20 World Cup	Australia
8	The Hundred	Oval Invincibles
9	Wilder vs Fury II	Fury
10	Olympics - Medals won by Team GB	56
11	Paralympics - Medals won by Team GB	132
12	Wimbledon	Novak Djokovic

Source: St Bride's Managers

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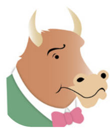
Bear: All they said was "please concentrate on your property recommendations... which is where your strength lies. And only focus on those parts of the economy which have a direct impact on real estate".

Bull: What does that mean?

Bear: I guess the direction of travel for GDP, interest rates, inflation and government bonds. And they want to hear from expert economists. Not us.

Bull: That's a bit harsh. I've got a good mind to tell them where to stick this assignment.

Bear: Calm down Bull. Think of the fees. It's harsh, but it's probably fair. Anyway, from what I've read recently, weaker growth at the turn of the year is expected to drag overall UK economic growth down to 0.75% in 2020. The Bank is now predicting that UK growth will pick up modestly in 2021 (1.50%) and again in 2022 (1.75%). This equates to an average rate of 1.10% over the next three years.



Bull: The words 'salt' and 'pinch of' immediately spring to mind. The Bank's Monetary Policy Report in November was forecasting 1.2% for 2020 and 2.1% for 2022! What's changed?

GDP Growth and CPI Forecasts 2020-2022

Year (end of)	GDP	CPI	Bank Rate
2020	0.75%	1.50%	0.50%
2021	1.50%	2.00%	0.50%
2022	1.75%	2.20%	0.50%

Source: Bank of England / UK Treasury (January 2020)

Bear: We both know how the Bank fares when it comes to getting their economic forecasts correct! I should also mention that their forecasts assume a smooth Brexit and a limited impact from the coronavirus. God help us if those assumptions are wrong!

Bull: Indeed. But I am rather confused. The economy rebounded in January. Virtually all sentiment indicators have improved since the election result, with business optimism well and truly on the up. Unemployment is at its lowest level since 1970s, real pay growth is close to 3% and inflation is back well below the Government's target level of 2%. I can forsee another 'Roaring Twenties', a decade of economic growth and widespread prosperity.

Bear: Comments like that are exactly why St Bride's don't want our economic predictions!

Bull: Okay. Okay. I'll let it go. But you heard it here first. The Bank has misjudged it.

Bear: What makes you so sure?

Bull: Throw in a trade deal between the US and China and the expected rise in spending by the Government following the March Budget, I can foresee some pretty solid growth going forward. I wasn't at all surprised that the Bank voted against an immediate interest rate cut to help the economy at the end of January. They didn't need to on the back of some recent positive signs.

Bear: I wasn't surprised either, but I think the financial markets have already woken up to the fact that the risk of a no-deal Brexit cliff-hanger is still very real. I reckon a cloud of uncertainty will keep business investment at bay for a large part of 2020, especially during the second half of the year. "Rather than a bounce, the economy will experience something more akin to a jump by someone wearing lead boots" was a recent quote that particularly resonated with me.

Bull: But St Bride's don't want to know what you think. How many times do you have to be told?

Bear: Sorry Bull. Old habits die hard. So, what do the so-called experts think will happen to UK interest rates?

Bull: It's a mixed message from what I can gather. For some of them, the next move will be a rise, but they recognise that this is unlikely to happen until next year. For others, an interest rate cut seems much more probable. The MPC is already ready to cut rates if growth remains subdued. Two members called for an immediate rate cut to 0.50% back in January, remember?

Bear: I do. And for what it's worth, I reckon the current low inflation levels will lead to the MPC cutting interest rates by 0.25% in the near term. However, I can't see this having much of an impact. Much more important will be the shape the future EU/UK relationship takes or whether the Government is inclined to inject some fiscal stimulus.

Bull: What about UK Government bond yields? I had to rub my eyes when I saw that 10-year bonds were still hovering around 0.50%.

Current 10 Year Government Bond Yields

Country	Yield
US	1.56%
Australia	0.93%
UK	0.53%
Japan	-0.06%
France	-0.16%
Germany	-0.42%

Source: Trading Economics, 4 February 2020

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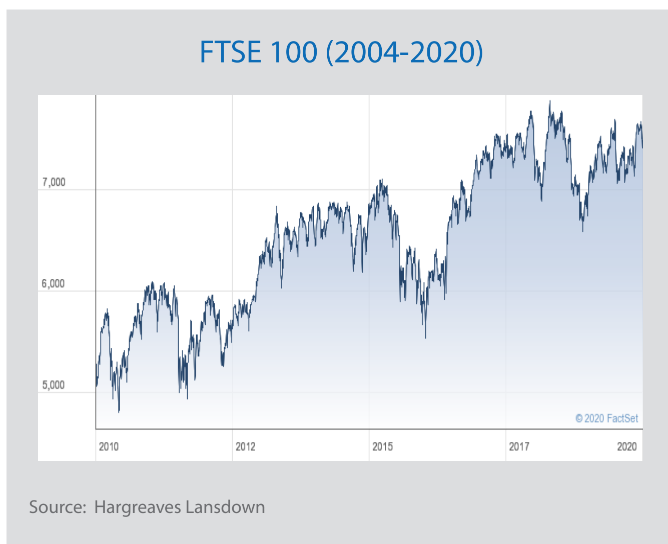
Bear: Again, it's mixed messages. Analysts appear split on their direction of travel for 2020. Perhaps a sign of confusion over the course of the economy and monetary policy?

Bull: I reckon UK Government bonds will diminish in popularity over the coming months. The election victory is likely to reinstate investors' faith in riskier assets. I am struggling to see much value in the bond markets. I'd much rather be looking at equities. Did you see how well they performed last year? A 16.5% return.

Bear: You probably have a point. Some experts reckon the FTSE 100 could reach 8,000 by the end of the year if worries about Brexit, global trade tensions and economic growth recede.

FTSE 100 (2004-2020)



Source: Hargreaves Lansdown

Bull: Maybe. The FTSE is barely any higher than it was three years ago, and the pound is still way below where it was in the summer of 2016. So, it's relatively easy for value-seeking contrarians to make a case for the UK stock market which has underperformed on a global basis. I have to say it looks potentially undervalued on the basis of earnings and yield. Remember, the FTSE 100 offers a prospective yield of around 4.70%. A pretty attractive return if you ask me!

Bear: But I didn't ask you! Anyway, what about our bread and butter, property? Is 2020 the year when investors need to get off the pot, get their hands out their pockets and start putting their money to work? Surely 2020 can't be another year of 'wait and see'?

Bull: Wow. Really bullish stuff from you Bear. But I couldn't agree more.

Bear: But, surprise surprise, you've conveniently forgotten how property fared in 2019. It was the lowest performing asset class over the last year, delivering just 1.2% pa. That's the lowest twelve-month total return since the Financial Crisis in 2008.

Bull: I can't deny that. However, property has still delivered the best return over both five years (6.7% pa) and 10 years (8.7% pa). You have to remember that retail still represents over a third of the MSCI index and that sector has well and truly tanked.

Bear: And that's being a bit generous! Retail delivered a return of -6.8% pa in 2019, with some subsectors, like shopping centres, delivering -13.2% pa.

Bull: All the other sectors fared just fine though. Offices delivered a total return of 4.4% pa, industrials delivered 6.9% pa and residential delivered 6.1% pa.

Bear: In typical fashion, I think you're over-stating the strength of the market. Yields softened in most sectors over the course of 2019. The most recent IPF Consensus Forecast (November 2019) indicates a 2.5% pa total return in 2020, rising to 4.9% pa in 2021. That's hardly inspiring stuff, is it?

Total Return Forecasts for 2020

	Capital Value Growth (% pa)	Total Return (% pa)
IPF Consensus	-2.2	2.5
IPF Maximum	1.0	5.5
IPF Minimum	-9.9	-4.6
St Bride's Managers	0.4	5.0

Source: IPF Forecast (November 2019) and St Bride's Managers

Bull: These forecasts were made before the General Election result was announced. That was a real game changer. I suspect their next survey will show an increased positivity. It wouldn't surprise me one bit if All Property delivers a 5.0% pa total return in 2020. I genuinely believe all the ingredients are in place.

Bear: Ok then. Let's hear it. Spill the beans on how you'd go about outperfoming the market. Remember, property delivers an income return of 4.6% pa, so you are going to have to be relying on some rental and/or capital growth to help you. With retail making up a third of the index and values in that sector still falling…and fast, that's a tall order in my book!

Bull: Well, avoiding retail is exactly where I would start.

Bear: At last we can agree on something. Retail is a car crash of epic proportions, isn't it? Retail capital values fell by 11.6% in 2019. And, in my humble opinion, valuations still don't mirror what the market is telling us. Throw in sharply declining rental growth and you've got yourself an X-rated horror movie.

Bull: I'm struggling to argue against you. Investor confidence in the sector remains really low and this has been amplified with the news of further retailers suffering. Clintons, Jessops, Mothercare and Links of London all collapsed into administration during the last quarter of 2019.

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Bear: I told you it was a car crash. According to the FT, listed UK retailers' profits have slumped more than a third in the past eleven years, despite a 50% rise in sales. Retail has also undoubtedly been affected by uncertainty with Brexit and the structural challenges around online and omni-channel retailing.

Bull: But with change and uncertainty surely comes opportunity? At some point, opportunistic investors are going to call the bottom of the cycle and start investing once more in the sector. Prime retail yields are currently hovering around 5.25% pa. That looks rather juicy to me.

UK Retail Investment Yields

Sub-Sector	Yield
Prime High Street	5.25%
Good Secondary High Street	8.00%
Prime Supermarkets	4.25%
Prime Shopping Centres	5.85%
Prime Retail Warehouse (Open A1 inc Fashion)	6.25%

Source: CBRE, February 2020

Bear: You're not going to try and convince me that this so-called opportunity will transcend through to secondary and tertiary retail schemes, are you? Personally, I think retail rents still have a long way to fall.

Bull: No. I'm not that brave. But retail is not dead. Even in the UK, where we shop online with a fervour, more than 80% of everything we buy touches a shop in some way. There will be a time when the investment case is just too compelling to ignore.

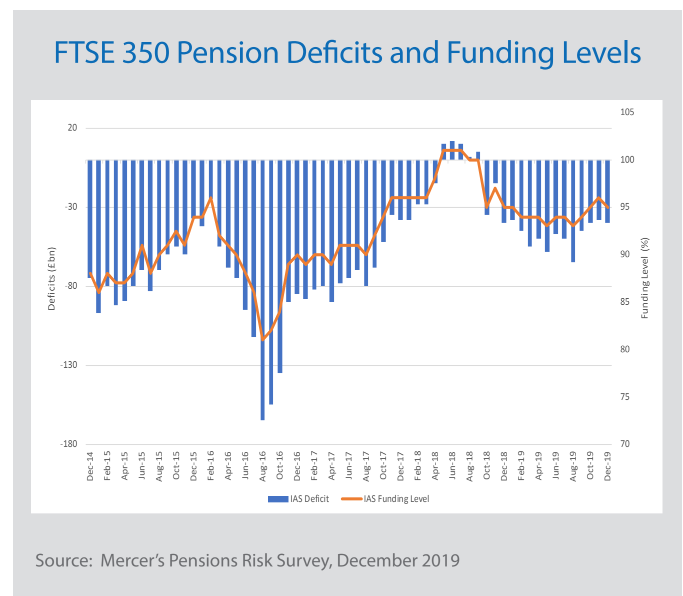
Bear: Maybe, but the pricing must be attractive enough to allow for a rebalancing of rents to a level that struggling retailers can afford. We aren't there yet.

Bull: Ok, but if you ask me, the sector is looking increasingly ripe for repositioning, either through wholesale redevelopment or reconfiguration to a broader mix of uses, such as leisure and workspace. Maybe not this year but it's very much a case of watch this space. However, I accept that if we want to better that 5% pa benchmark return target, retail must remain off the shopping list. Much like long-income assets.

Bear: Excuse me? Did you just say that you are recommending that investors turn away from the most popular sector in the market at present? Utter madness. Long lease funds significantly outperformed in 2019, delivering a 5.6% pa total return in 2019. That's a controversial opinion Bull.

Bull: It is contrarian, that I'll accept. But if we want to better our 5% target, we just can't be playing in this space. Its so hot right now. Have you seen where yields have reached for hotels, care homes and even garden centres for goodness sake? This is not about property and its fundamentals. It's about asset liability modelling, particularly inflation proofing.

Bear: Plugging the pension deficit gap, in other words? What was the figure Mercers' quoted in their December 2019 Survey when they analysed the Defined Benefit pension schemes for the UK's 350 largest companies? A £40 billion deficit and 95% funded, wasn't it?



FTSE 350 Pension Deficits and Funding Levels

Source: Mercer's Pensions Risk Survey, December 2019

Bull: Yup. Almost identical to the deficit in 2018. That is why they are all chasing index-linked, passive, long income. It helps to meet their long-term liabilities without too much effort. I get the approach. I really do. But I do worry about the over-renting.

Bear: Why?

Bull: Well, according to CBRE, 28% of all long income property (by number) is over-rented. That's a big number. But investors don't appear to mind. Don't get me wrong. There is clearly a place for this type of product, especially given the demographic story, but hopefully with much of the uncertainty over Brexit now lifted, it now feels like the time for action and for investors to be far braver in their approach to property. It's time for them to spread their wings again and buy active investments.

Bear: So, are you expecting all that pent-up investor demand we keep hearing about to finally be released in 2020?

Bear: I'd like to think so. According to LSH, total property investment volumes in the UK in 2019 were £49.5bn. This was well down on 2018's total of £61.8bn. But, even with my most bearish hat on, I'm struggling to think why 2020 won't better 2019.

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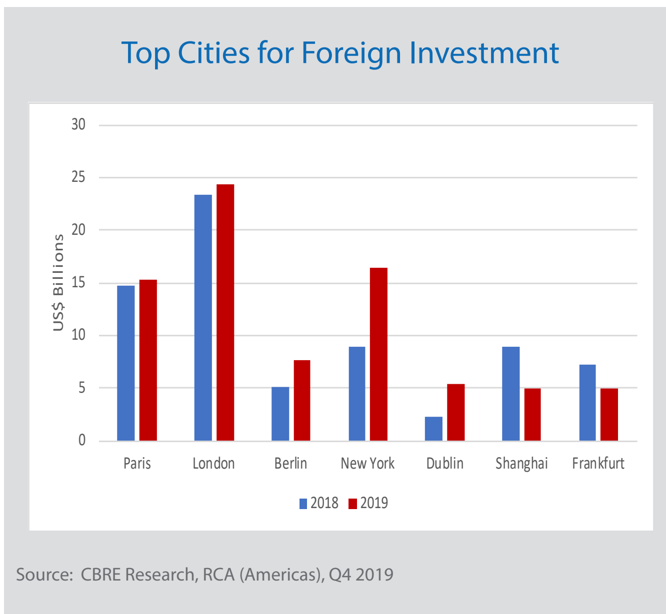
Bull: Hear, hear. South Korean investors were almost completely absent in 2019. Japanese institutional investors have also been carefully waiting in the wings and they too are expected to turn their attention to the UK now that some sort of political stability has returned. Personally I can see investment volumes rebounding sharply this year, possibly reaching £60bn.

Bear: Let's compromise at £55bn! After all, the EU trade talks are likely to stem the flow of activity which I reckon will be heavily weighted towards the first half of the year. There's a real danger that it will come to a grinding halt again after the summer.

Bull: Maybe, and we do need to factor in that the UK isn't the only investable destination in the world. The picture globally is still pretty healthy in terms of investment volumes into property. US$1,052bn in 2019. If investors want to beat the 5% target, they must open their eyes to the opportunities that exist in Europe and beyond.

Bear: They already have though. Continental Europe saw huge levels of investment last year. France and Germany, which accounted for 20% of the market, saw their volumes reach new highs. Other European markets also continued to attract huge volumes of capital, despite the low prime yields. For example, look at the double-digit growth achieved by Ireland (58%), Sweden (56%), Austria (39%) and Italy (37%). The UK was down 19% in terms of investment volumes!



Source: CBRE Research, RCA (Americas), Q4 2019

Bull: I accept that, but the UK, and London offices especially, are one of my key investment tips for 2020. The UK's long-term appeal on the global stage remains undiminished and with Brexit now 'done', the UK will be a major draw to both domestic and overseas investors in 2020.

Bear: What makes you so sure? Many more political twists and turns lie ahead. It would be incredibly naive not to expect more uncertainty and hence inactivity, especially as the UK tries to agree a trade deal with the EU (and the rest of the world).

Bull: I accept that, but while prime property yields in many sectors (excluding retail) in the UK stand at or near to historic lows, in a global context, the UK offers relatively good value compared with other markets.

Bear: Really? I just thought everywhere was expensive?

Bull: That is true. All asset classes do look expensive but there must be something amiss if prime office yields in Warsaw are only 50 basis points higher than yields in the City of London.

Bear: Seriously?

Bull: Seriously. Can you really tell me that the Amsterdam office market is nearly 100 basis points better than London? Come on! Three or four years ago, you couldn't give away an office there. Office yields in Amsterdam have fallen from 4.4% pa to 3.1% pa in only three years.

Prime European Office Yields

City	Yield (% pa)
Warsaw	4.50
London (City)	4.00
London (West End)	3.50
Milan	3.30
Madrid	3.25
Amsterdam	3.10
Frankfurt	2.90
Paris	2.80
Munich	2.75
Berlin	2.65

Source: JLL / BNP Paribas, December 2019

Bear: Crickey. But hasn't every European key city seen yields fall in the last three years?

Bull: All except London. And pricing aside, the UK still provides the liquidity, security and transparency investors desperately want.

Bear: So, are you suggesting some yield compression in London offices?

Bull: Yes. And I am as certain as night follows day. Expect to see City yields down to 3.75% and West End down to 3.25% by the end of 2020. These are the markets that investors need to be seriously exploring.

Bear: But can they find the stock? That's a huge challenge. According to Knight Frank, there is only one multi-let office building on the open market of a size between £25m and £100m.

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Bull: That's where the agents will have to earn their corn. Yes, there is a lot of competition but this weight of money has to result in further yield compression.

Bear: And I suppose you are going to wax lyrical about London's occupational market too?

Bull: Absolutely, because occupationally, the London office market continues to go from strength to strength. Overall take-up in Q4 2019 rose by 13% (quarter-on-quarter) to a twelve-month high. Appetite for off-plan space is accelerating. Available space is 60% below the long-term average. Vacancy in London is only at 4.6%. I tell you. All the stats are positive.

Bear: What about rents? Have they grown as a consequence?

Bull: City headline rents rose by 4.2% in 2019 to £70 per sq. ft. and rental growth is predicted to remain strong. All the ingredients are there for out-performance from London offices. That's why I am such a strong advocate.

Central London Office Market

Area	Take-Up m sq. ft.	Vacancy Rate	Prime Rents £ psf
City	0.4	2.10%	£70
West End	1.4	3.65%	£115
Midtown	1.8	4.78%	£70
East	0.09	11.49%	£42.50

Source: Avison Young, Q4 2019

Bear: Are you as equally bullish on the UK regional office markets?

Bull: Yes. Although not universally. The UK's key office markets will continue to perform well. Especially the larger office market where take-up amounted to 8.8 million sq. ft. in 2019, 3% above the ten-year average.

Bear: But I thought office take-up was down on the levels of the past two years?

Bull: It was. But the regional markets continue to attract large headline lettings. For example, JP Morgan Chase and BT both signed deals in excess of 200,000 sq. ft. last year. 2020 will also see the completion of more than one million sq. ft. of developments from the first phase of the Government programme and arrival of thousands of Government employees. Boris's drive to promote the regions will only help drive office rents forward.

Bear: So, are you suggesting that the likes of Manchester, Leeds, Bristol and Edinburgh will see further office rental growth in 2020?

Bull: That's exactly what I'm suggesting. Take Leeds as an example. With pre-letting still the only new-build option available for future occupiers, this provides a significant opportunity for developers and investors alike.

Bear: Where are rents currently? £30 psf?

Bull: Spot on. But they are expected to rise. For example, quoting rents at Majestic, the new home of Channel 4, are currently £34 per sq. ft. Rents are still undervalued in many of the 'big' cities and they just haven't kept up with the build-cost inflation increase. Even places like Cheltenham are now achieving rents in excess of £30 per sq. ft.

Bear: Interesting. Sounds like focused regional city office investment strategy is the way forward to deliver those superior returns you crave?

Bull: I'm definitely advocating that focus, and especially to those cities renowned for innovation. The likes of Oxford and Cambridge.

Bear: Why do you say that? Those markets are small. Opportunities are seriously tough to find and pricing is really aggressive, isn't it?

Bull: Because innovation creates demand. Did you know that since 1997, Oxford University Innovation has been responsible for creating numerous spin-out companies based on academic research generated within and owned by the University of Oxford?

Bear: So what?

Bull: Let me finish. Well, they have spun out, on average, a new company every two months! Eleven of them are now listed in London and New York. It's no wonder these office markets are performing so well, is it? I'd definitely be looking to have myself a piece of that action. And industrials. That sector is expected to perform well again this year.

Oxford University Spinouts

Source: Oxford Innovation

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Bear: I know industrials have been the darling of real estate over the past few years, but haven't they started to lose their shine somewhat? Look at the capital returns. 2.4% in 2019 compared with 9.1% in 2018. Clear evidence of a slowdown. Investor sentiment is much more muted than it was and transaction volumes have dipped as the prolonged yield compression has finally started to abate.

Bull: Transaction volumes dipped? Seriously? 2019 was the second-best year ever, and that is despite the head-winds that held down all property transactional volumes. I do accept, however, that rental growth has now taken over as the main driver of performance.

Bear: And that's where I have my concerns. Isn't rental growth for large distribution warehouses slowing nationally? ONS data shows that whilst the level of online retail in the UK continues to grow, the pace has started to slow. This is bound to filter down into rental growth.

Bull: That may be true, but industrials are still expected to be one of the top performing sectors again, with the South East and London particularly so, given the lack of development land. The battle amongst retailers for the ultimate convenience offer will also intensify, and this will continue to drive last mile logistics requirements.

Bear: So are you predicting yield compression and out performance?

Bull: I accept industrial total returns may no longer reach the dizzy heights of 2018 (16.4% pa) and 2019 (6.9% pa), but I still reckon there could be some further downward pressure on yields. Industrials are still a "yes" from me in true BGT-style.

Recent Performance of Industrials

	2018	2019
Total Return (% pa)	16.4%	6.9%
Capital Return (% pa)	9.1%	2.4%
Rental Value Growth (% pa)	4.6%	2.2%

Source: MSCI

Bear: I'm far less convinced. The UK's Big Box logistics availability stands at just over 27m sq. ft. Yields are at record lows, and the sector also faces some serious structural challenges, including staffing availability, the rise of autonomous trucks, and competition for land from housebuilders.

Bull: So, if you aren't roy (keane) for industrials, where are you recommending investors put their money?

Bear: I'd be taking a seriously close look at indirect investments/ REITS and the listed property sector.

Bull: Wow. That's a bit of a curve-ball idea. What's driving your thinking behind that?

Bear: A couple of reasons, with performance and investor flexibility/diversification at the very forefront.

Bull: Go on.

Bear: If you ask me, REITS offer part of the solution to the issues faced by investors regarding the open-ended retail funds. That M&G suspension at the back end of last year was not good news for the industry. Pressure on the open-ended property funds is only likely to mount.

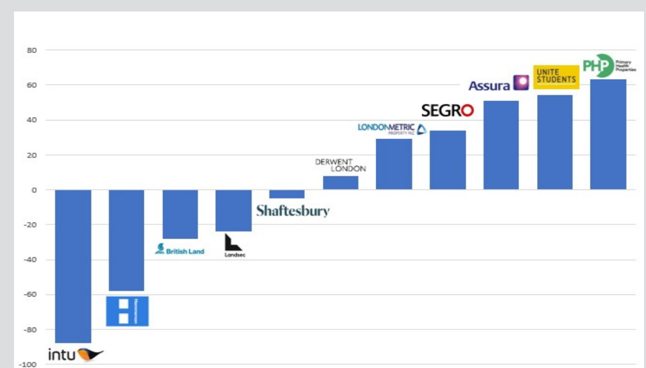
Bull: I definitely agree with that. But talk to me about the opportunity for performance from the listed market? I must confess I haven't been keeping up to date with this as much as I should have been. The last I heard was there were big discounts to NAVs.

Bear: The opportunity for investment diversification is obvious, whether it be at a sector, city or country level. We all know about the collapse in the share price of the retail REITs, like Intu and Hammerson. So avoiding exposure to retail through the listed sector can easily be done.

Bull: That's all well and good. But what about performance? That's what we are after here.

Bear: The sector has re-rated significantly over the last year. It is now trading at a 9% premium to NAV on average, up from a 22% discount twelve months ago!

Listed Real Estate Securities Discounts / Premiums to NAV (%)



Source: Panmure Gordon, 3 February 2020

Bull: Blimey. What's caused that?

Bear: It has been largely down to the risk of higher interest rates dissipating. Ratings on all the sub-sectors have improved, with the London office specialists moving back towards parity, having been at significant discounts for the past three years. Healthcare and student accommodation REITs have also continued to rise.

Bull: So, are you saying there is a real opportunity where property shares are trading at a discount to NAV?

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Bear: For the right stocks, of course.

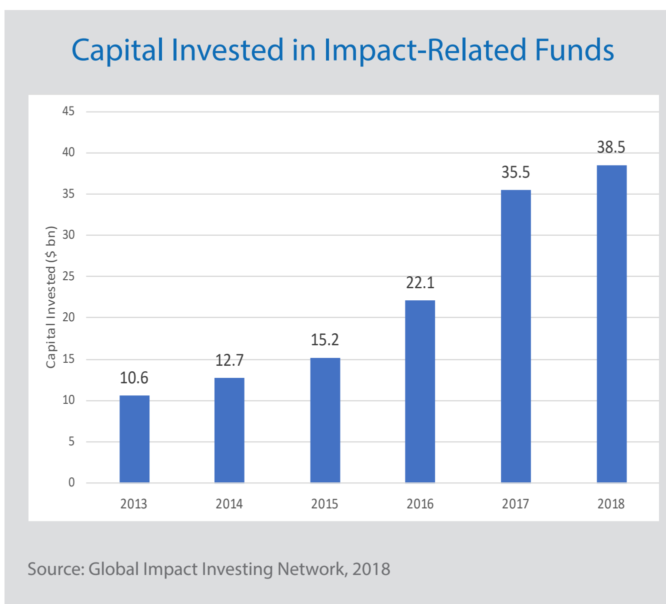
Bull: I'd be happy to follow your lead on this given you seem so confident, but an investment into listed securities won't have much of an impact will it?

Bear: On performance it should. What else do you want?

Bull: No Bear. You've missed my point. Environment, Social and Governance (ESG) concerns are now becoming systematically integrated into investors' investment processes across all asset classes. More attention is being paid to the social and societal impact than ever before.

Bear: Really? But what do you mean by social impact investing? Investments which generate financial returns alongside positive social outcomes?

Bull: Spot on. It's all the rage at present. It's only going to grow.



Source: Global Impact Investing Network, 2018

Bear: Why? What makes you so sure?

Bull: The catalyst for this growth is supply and demand. Supply is represented by a shortage of social infrastructure, like affordable housing and healthcare. We all know about that. There is also the clear need to alleviate social and economic deprivation.

Bear: I agree with that. And on the demand side?

Bull: Demand is being driven by the UK Pension Funds and other institutional investors seeking attractive long-term returns. Investing in affordable housing, and the like, offers them that.

Bear: I get the rationale but how do we measure the impact? Is it like the number of jobs created?

Bull: That's one measure, and others might be the delivery of new houses, apprenticeships and community involvement. Another example would be helping the homeless move on with their lives and into independent living. The number of people taken off the street would be the measurable impact in this case.

Bear: That sounds highly commendable, but does investing this way deliver the financial returns St Bride's investors want? Surely optimum risk-adjusted returns and measurable social impact are not mutually exclusive? Are investors prepared to forgo a financial return to make an impact?

Bull: Not as far as I have seen. Take the Local Authority Pension Funds. They have their fiduciary responsibilities. They are not philanthropists. But I'm telling you, impact investing is gaining momentum. Huge momentum. It's here to stay. St Bride's have a new partnership looking to do exactly this in South Yorkshire.

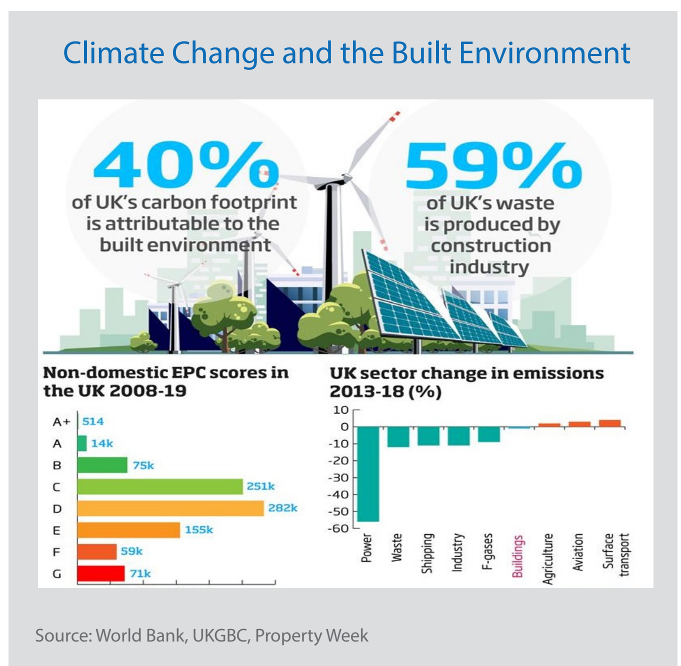
Bear: Interesting. Is this momentum for impact investing linked with growing climate change awareness? I suspect it is.

Bull: Absolutely. Pressure from within the real estate industry to act on climate change continues to increase. Whether it be from employees or activist investors looking for 'ethical returns.'

Bear: About time I'd say. Although I reckon only a few investors and investment managers really understand exactly what to do or how to do it. The real estate industry is perfectly placed to lead a major component of our response to the climate emergency. It could be doing so much more.

Bull: Why do you say that?

Bear: The stats are alarming. Around 70% of the global population will live in cities by 2050, yet 60% of that urban settlement has yet to be built! Did you know that buildings and construction account for 36% of total global energy use?



Source: World Bank, UKGBC, Property Week

Visions for 2020

Bull: That's a frightening statistic.

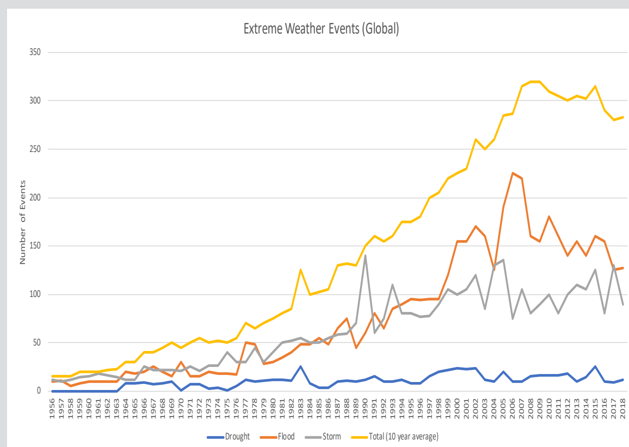
Bear: There's more. The construction industry is also responsible for producing nearly 60% of the UK's waste, generating more than 120 tonnes every year from demolition and excavation activities alone. Do you want me to go on?

Bull: Not really. I hadn't appreciated all that though. Scary stuff. As have been all the recent changes to the climate.

Bear: Yes.

Bull: For instance, did you know that last year alone, erratic weather over the summer months, coupled with September experiencing near-record rainfall, resulted in 2,400 flooded properties? There are now 5.2 million homes and businesses currently at risk of flooding, with this number expected to rise. Flooding already costs the UK around £600 million each year. The impact of climate change is already hurting us.

Extreme Weather Events (Global)



Source: The Emergency Events Database (2019)

Bear: Investors have already twigged onto this though, haven't they? European investors poured more than twice as much capital into sustainable funds last year than they did in 2018, in response to fears about the threats posed by climate change to the global economy.

Bull: Perhaps. And green buildings may become the new norm, compressing the market into one where a 'brown discount' is put onto buildings struggling to meet new energy standards.

Bear: You've lost me with that one. What's a 'brown discount'?

Bull: Those buildings at risk of climate change will be discounted when it comes to valuations. A 'brown discount' will be applied. The threat of climate change is already starting to impact on values and investors need to factor this in, not just for the long-term, but now.

Bear: There is an awful lot going on at present for investors to be considering with their real estate allocations, isn't there?

Bear: There sure is. That's why St Bride's wanted our property recommendations for 2020, not our predictions.

Bull: So, what do we agree on?

Bear: I think we've got eight, haven't we?

Recommendations for 2020

1. Buy Central London offices for the anticipated rental growth and yield compression.
2. Buy the key UK regional cities. Focus on offices and those locations, such as Oxford and Cambridge, that are renowned for innovation.
3. Avoid retail.
4. Be brave and move away from just focusing on long income assets.
5. Take climate change seriously and factor it into all investment decisions.
6. Consider whether your investments are having 'a social impact'.
7. Explore opportunities in the listed real estate securities market.
8. Don't forget there are some really worthy investable destinations outside the UK.

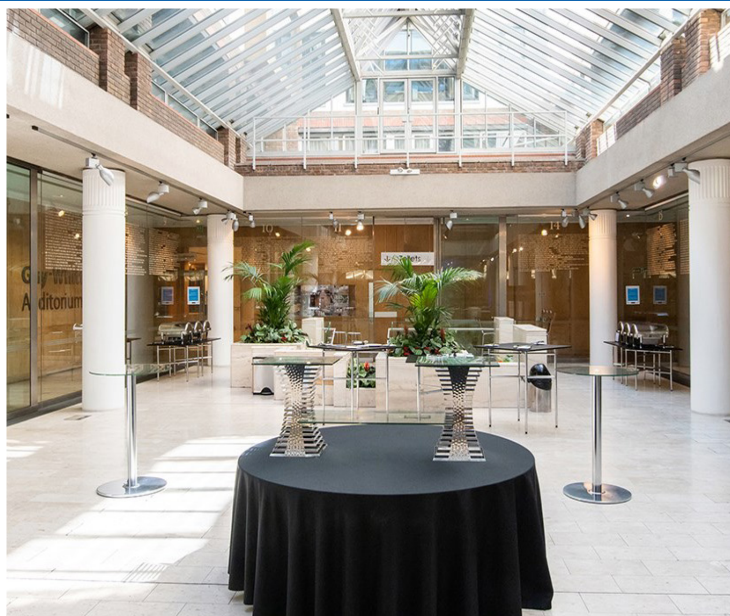
Bull: They will do for me. Let's hope they are all still holding firm when we attend the St Bride's Seminar on 18 June!

Save the date - Thursday 18th June 2020

St Bride's Managers Annual Seminar

The Royal Society of Medicine at
1 Wimpole Street, London, W1

8.30am	Registration
9.00am	Start
11.00am	End



Formal invitations to follow in early April 2020. There is no need to respond now.

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