

PIA RESEARCH NEWSLETTER

July 2010

Recent IPF Research

The first six months of 2010 have been very productive for the IPF Research Programme. We have published major research reports on depreciation in European office markets and drivers behind institutional investment allocations to direct and indirect real estate investments. Under the Short Papers Programme we have published a further four papers: an update to the first paper on real estate debt, a study of how property risk is being priced relative to other asset classes, a study of how robust property income is in light of shortening leases and other changes in the market, and a review of the evolution of the market for indirect property investment vehicles. Two UK Consensus Forecasts, one European Consensus Forecast and two IFA surveys have been released. We have also started to work with Lloyds Banking Group on a Quarterly Commercial Property Market Monitor. The first of these was published in March and the next is due out later in June.

[Depreciation in European Office Markets \(February 2010\)](#)

This work takes the methodology used in previous IPF work on depreciation and applies it to data on nine cities across Europe with some very interesting results. The work was carried out by the Universities of Reading and Aberdeen and IPD. The project also benefited from the support of CBRE and BNP Paribas Real Estate in the provision of data. The full and summary reports are available to download from the IPF website as are the slides from the project launch which was held jointly with SPR.

[UK Institutional Investors: Property Allocations, Influences and Strategies](#)

IPF commissioned this work jointly with INREV. It explores the drivers behind institutional investment allocations to the property investment market looking in particular at drivers behind allocations to unlisted and other indirect real estate investments. The research is based on 35 interviews undertaken with insurance company life funds, pensions, charities and investment consultants exploring their strategies in relation to both direct and indirect property investment. The report is available to download from the IPF website.

[Short papers series:](#)

[Paper 4: Repricing Property Risk](#)

This paper looks at recent developments in the markets, from the banking crisis to changing lease patterns and considers what implications they have for the risk rate applied to property. Key findings were presented at the IPD/IPF Property Investment Conference in Brighton in November 2009.

[Paper 5: The Robustness of Property Income](#)

Using lease events data drawn from the Strutt and Parker/IPD Lease events review alongside IPD returns data this paper reviews the evidence of robustness of property income through downturns. The work looks back to the 1991 downturn and draws important conclusions in terms of the implications of shorter lease structures for income return. Key findings were presented at the IPD/IPF Property Investment Conference in Brighton in November 2009.

[Paper 6: The Evolution of the Market for Indirect Investments in Commercial Property](#)

This paper explores the key questions of how the market for indirect investments in commercial property has evolved over the past decade and what have been the key drivers behind its growth. The paper reviews market data back to the mid 1990's, bringing the analysis right up to date with an examination of how these funds have dealt with the difficulties presented through 2008 and 2009.

[Paper 7: Real Estate Debt - An update](#)

The rapid pace of change and development within the markets in 2009 made an update to our first

Short Paper: Real Estate Debt – a Problem for the Borrowers *and* the Banks, necessary later in the year. Based on a round table discussion with a number of lenders and borrowers this paper explores some of the issues that emerged in the second half of 2009 around how banks are dealing with covenant breaches and the management of loan books.

Recent BCO Research

Making Flexible Working Work, May 2010

Is flexible working simply about cost savings from introducing desk-sharing and saving space? Or is it actually about working flexible hours and introducing alternative work strategies?

It is clear that governments, employers and employees are all beginning to see clear advantages in flexible working. This document seeks to get everyone 'on the same page' and guides readers through the complexities of flexible working. It is a practical guide, acting as a checklist to aid everyone involved in implementing flexible working programmes.

The objective of this document is to clarify the definitions and terminology, to describe what the benefits are and to give guidance on the change management process and legal aspects that will enable flexible working programmes to be successful. Finally the aim is to uncover the hidden costs behind flexible working and what the strategy should be for managing it in the long term.

Towards Zero Carbon Offices, April 2010

The goal of a zero carbon office will involve far more than incorporating a series of 'green' features or products, BCO believes that the day-to-day behaviour of occupants and their interface with buildings will become increasingly important.

This study aimed to investigate the considerable gap between a building's design capabilities to minimise carbon emissions and the ability of occupiers to make the most of these capabilities.

In the UK the Climate Change Act, aims to reduce carbon emissions by 26% by 2020 and emissions of all greenhouse gases by at least 80% by 2050 compared to 1990 levels. Around half of all carbon emissions emanate from buildings, the UK Government made a commitment that all new non-domestic buildings should be zero carbon from 2019.

Behavioural change and a good relationship between owners and occupiers are seen as essential to achieve the target of zero carbon.

24 Degrees Study: Comfort, Productivity and Energy Consumption – Case Study, March 2010

Research commissioned to inform the latest edition of the BCO Guide to Specification on office temperatures. This is the second stage of a two-stage project.

The case study was the second stage of a two-stage research project into office temperatures. This was the on-site investigation of the impact the change from 22 degrees plus or minus 2 degrees to 24 degrees plus or minus 2 degrees would have on a real working office environment.

The first stage of the project was a desk-based review of the theory and existing evidence that increasing the set-point of air-conditioning systems would reduce carbon emissions without compromising the thermal comfort of occupiers.

The findings of the case study research correspond with the findings of Arup's desk research.

Low Carbon Networks, February 2010

This briefing note describes low carbon networks, sets out their main benefits and reviews ESCOs role in the procurement and delivery of these networks.

What is a low carbon network? The first section of the briefing note answers this question which is growing in importance as the benefits to developers, building owners and operators become clear.

Energy service companies (ESCOs) offer a range of services to facilitate the provision of a low carbon network. They are specialist companies which have their origins in the gas and electricity supply

industry. Their role is in the design, installation, operation and maintenance, and finance and energy management of a community energy scheme.

In a community energy scheme, heated and chilled water supplies are produced within a plant room area referred to as the 'energy centre', and circulated to surrounding buildings via distribution pipework.

The Role of Property in Recessionary Cycles, January 2010

A new BCO research report looks at the question of how to develop a property strategy during an economic downturn. An exciting new tool accompanies this research report.

Since August 2007, the UK economy has been in a long slide into recession and cutting costs has become a matter of survival for many companies. Redundancies mean that many companies have more office space than they need right now and property costs may seem fixed, ever-increasing and rigid.

The purpose of this research was to take a look at how the larger occupiers utilized their property assets most effectively and to see what lessons were transferable to the small and medium sized enterprise. The research team interviewed 29 occupier organisations with responsibility for more than 20 million square feet of office space.

Small Power Use in Offices, December 2009

Commissioned to inform the BCO Guide to Specification 2009, this research report covers actual small power loads in occupied buildings across a range of occupiers and locations.

Previous research has shown that there is a significant difference between actual small power loads observed in occupied buildings and those assumed for design. Design figures tend to overestimate loads, failing to fully account for diversity of use. This was found in an earlier study by Stanhope and BCO in 2001.

The overdesign of small power provision has an impact on the operation of other building services - for example, oversized air conditioning systems tend to have unstable operation leading to comfort problems and inefficient part-load operation.

Recent BCSC Research

Retail Development Pipeline 2009 (November 2009) - This BCSC research paper is published in partnership with retail property agents Lunson Mitchenall. This research paper highlights the importance of maintaining an active retail development pipeline to ensure continued investment in town centres as well as creating a new source of floor space for retailer expansion. The analysis points to a latent demand for floor space that will build as consumer confidence begins to return and retail sales improve.

http://www.bcsc.org.uk/publication.asp?pub_id=351

Secondary Centres: The Impact of the Recession on Secondary Shopping Centres (January 2010) - Supported by the BCSC Secondary Centres Taskforce, DTZ was commissioned to undertake a study to establish the magnitude of the issues and problems facing shopping centres and their owners, especially those in secondary locations. The study tries to ascertain how different parties are trying to resolve problems including falling value, reduced income, and physical deterioration of these assets. A number of the major lending banks were interviewed as part of the research. Key findings indicate:

- there is a growing polarisation between the performance of prime and secondary retail property, which has been exacerbated by the economic downturn. In spite of recent growth in capital values, the report concludes that collaborative action is required by all stakeholders to prevent secondary centres from falling into further decline

- it has been estimated that just over £10.1 billion worth of shopping centres are at risk. This equates to 43% of all shopping centre transactions in the past five years
- yield compressions witnessed in the last few months of 2009 are really only applicable to prime assets. Waiting for inward yield shifts for secondary shopping centres will take considerably longer, at least 3 to 5 years
- retailers have a critical role in helping improve a centre's vitality and viability. Strong tenant / owner relationships were viewed as essential, as is encouraging tenant mix engineering, to secure the best mix of retailers aligned with the centre's customer base

This report is intended to be the initial phase in addressing issues affecting secondary centres and ultimately the social impact of these deteriorating assets on communities.

http://www.bcsc.org.uk/publication.asp?pub_id=356

Study into the Provision of Existing Designated Disabled Persons Parking Bays in Off-Street Car Parks in the UK (March 2010) – The British Parking Association (BPA), in partnership with the Department for Transport (DfT), Mobilise and the British Council of Shopping Centres (BCSC) commissioned WSP Development and Transportation to undertake a research survey of parking facilities for disabled people in off-street public car parks within the UK. This research sought to examine whether the current blanket 6% guidance is appropriate for all land uses at all times of the day / week / year, and to understand the provision, allocation, use, abuse and enforcement of designated disabled parking bays in off-street public parking facilities.

http://www.bcsc.org.uk/publication.asp?pub_id=370

Better Towns Centres at Night: Raising the Standard and Broadening the Appeal (April 2010) –

In partnership with the Association of Town Centre Management (ATCM), the BCSC Educational Trust supported the former Civic Trust, to provide an understanding of the challenges facing towns and city centres at night.

The last five years have seen major advances in the organisation, regulation and control of town centres after hours, but policy makers and managers can do more to understand existing and potential consumer markets. Towns need to raise standards in trying to meet consumer aspirations for quality, variety and choice – what will result may well look and feel different but town centres can be more successful and more inclusive, sociable and convivial by day and night. Taking on a case study approach, the report draws on the experience of towns and cities to offer some pointers to the future, at a time when many previous certainties are now surrounded in doubt and the future for town centres is as challenging as ever.

http://www.bcsc.org.uk/publication.asp?pub_id=373

Guidance papers

Guidance note 65: Carbon Reduction Commitment: Implementation (published March 2010). This guidance note raises industry awareness of this mandatory regulation which will have repercussions for all non-domestic buildings that have an annual half-hourly electricity use of above 6,000 MWh (an electric bill of approximately £500,000). This paper is an update of previous guidance published in 2009.

http://www.bcsc.org.uk/publication.asp?pub_id=371

Pipeline research:

- Steps and Ramps in Non-domestic Buildings – to be published June 2010
- Slippery Surfaces– to be published June 2010
- Update of the BCSC Shopfitting Guide – to be published Summer 2010
- BCSC Sustainability Charter update – to be published Summer 2010
- Accessibility and Designing out Crime and Disorder – Spring 2011

BPF Research activity

New Guide to Planning for Social Infrastructure Provision

The British Property Federation has published a new guide entitled Planning for Social Infrastructure in Development Projects. It has done so because identifying and delivering social infrastructure is seen as one of the biggest challenges that developers face, particularly those dealing with big schemes.

A key problem is that many local authorities when faced with a big scheme simply don't have the resources to cope and so much of the onus for dealing with the social infrastructure element falls on the developer. The idea of this guide, therefore, is to try to provide both developers and others involved with advice and tips on steering their way through the process so that they are not constantly faced with reinventing the wheel.

The Guide can be downloaded from the BPF website, www.bpf.org.uk

Training in Development Economics

New research sponsored by an array of planning and property bodies is shortly to be published which will highlight the need to upgrade the skills of planners, councillors and others so that they are better equipped to understand what makes for successful development. The report was commissioned as a result of concerns that skills to manage deliverable plans and process viable planning applications are not sufficient to meet the current challenges which include the greater use of planning tariffs and the need to understand projects.

The research, carried out by Roger Tym & Partners, was based on a survey of planners, councillors and other professions to determine whether the level of skills available were sufficient to meet the issues being faced. The results show that there is strong support for additional training, at different levels, to help planners understand the development process better and to access the expert advice they need.

The report should be available on the BPF website as well as that of other sponsoring bodies before the end of June 2010.

The sponsoring bodies are British Property Federation, Planning Advisory Service, Royal Town Planning Institute, Royal Institution of Chartered Surveyors, British Urban Regeneration Association, Planning Officers Society, the Homes and Communities Agency Academy, the Homes and Communities Agency's Advisory Team for Large Applications, the Planning Inspectorate and the Valuation Office, working in conjunction with Communities and Local Government.

Construction health and Safety

The Government has confirmed that the Health and Safety Executive (HSE) will be launching a review of the 2007 Construction Design and Management (CDM) regulations which deal with health and safety issues in construction. To inform the Review, the BPF partnered with the CCG to commission a study to assess the impact of the regulations on clients (both infrequent and frequent). The study, which was conducted by research firm Pye Tait, is now complete and will be released imminently.

Annual Lease review

The BPF Annual Lease review will be published in September. This year there will be a focus on SMEs (as is the case in every second year)

Utility Connections

The BPF is shortly to publish a guide to assist developers in arranging utility connections. Organising utility connections is often cited as the single most common cause of delay in construction projects. Whilst construction times have been growing shorter because of improved technology and greater efficiency the connections industry has failed to keep pace. Whilst the main

concern revolves around delays in getting connected the cost of the connection process can also be an issue.

The guide is intended to

- Explain the current system for obtaining new connections to gas, electricity and water services.
- Set out who are the major players involved in the process
- Describe the problems commonly experienced and ways in which developers can seek to mitigate them.

The guide is likely to be published in July 2010.

Property Industry Alliance Research

[UK Commercial Property Facts and Figures 2010](#)

The second edition of this short publication providing statistics demonstrating the link between UK commercial property markets and the wider economy will be published in July 2010. This publication aims to raise awareness of the contribution of the commercial property sector to UK GDP, employment, pensions and savings.

[Occupier Satisfaction Index 2010](#)

The fourth PIA sponsored Occupier Satisfaction Index is in process and will be launched on 16 September 2010 at a breakfast to be hosted by DLA Piper.

Recent RICS Research

Is sustainability reflected in commercial property prices: an analysis of the evidence base

This report, by Kingston University with funding from the RICS Foundation, analyses the publicly available evidence base for sustainability being reflected in commercial property prices.

http://www.rics.org/site/scripts/download_info.aspx?fileID=5751&categoryID=523

Redefining zero: carbon profiling as a solution to whole life carbon emission measurement in buildings

This report, by Sturgis Associates, proposes a new approach to measuring the carbon emissions of buildings, by combining the embedded and operational emissions of buildings.

http://www.rics.org/site/scripts/download_info.aspx?fileID=6542&categoryID=523

Transaction costs, planning and housing supply

This research by Phil Allmendinger of the University of Cambridge, with funding from the RICS Education Trust, explores the increasing costs that the planning system places on new housing development.

http://www.rics.org/site/scripts/download_info.aspx?fileID=5997&categoryID=523

What is the effect of eco-labelling on office occupancy rates in the USA

This research, by Pat McAllister and Franz Fuerst of the University of Reading, UK, explores the impact of eco-labelling on void rates in commercial office buildings in the USA.

http://www.rics.org/site/scripts/download_info.aspx?fileID=5749&categoryID=523

Why do companies rent green?

This report, by Piet Eichholtz, Nils Kok and John Quigley, examines the tenant-base of 'green' office buildings in the USA, to see which organisations seem most likely to occupy 'green' space.

http://www.rics.org/site/scripts/download_info.aspx?fileID=5071&categoryID=523

IPF Work in Progress

The following IPF Research Project are currently in progress with outputs expected in the latter half of 2010

Risk Web 2.0 - an investigation into the causes of portfolio risk

Gerry Blundell has been commissioned to carry out a research project that explores the potential for a series of variables to predict levels of risk within real estate investment portfolios. He is being supported by Malcolm Frodsham and Roberto Diaz Martinez of IPD. The research will generate a series of outputs including an update to the now familiar Blundell Risk Web. The work is expected to be published in the early Autumn of 2010.

Real estate and Inflation

Oxford Economics has been commissioned to carry out research investigating how real estate responds to different inflationary conditions. The work extends across a range of countries and inflation regimes. Neil Blake of Oxford Economics is carrying out the work with the support of Angus McIntosh (King Sturge) and Chris Simmons (Real Estate Forecasting). The work is due to be published in the early Autumn of 2010.

IPF Research Short Paper 8: Comparing and contrasting the performance of direct & indirect property over the past 10 years

IPD have been commissioned to write the latest in our series of Short Papers. This paper will look at the total return per unit performance of constituents (current and otherwise) of the IPD UK Pooled Property Fund Indices and the direct property returns to the same funds as reflected in the IPD UK Quarterly Index. Comparisons will generally be made in terms of capital value, income and total returns.

IFA's Survey

An online survey of Independent Financial Advisors is run three times a year to find out more about their attitudes to commercial property investment. This produces some very interesting data on the recommendations IFA's are making with regards property allocations within a portfolios, the returns expected by their clients and how their views of property as an asset class had changed over the last few months. The repetition of the work every 4 months to enabling us to develop longitudinal data tracking IFA attitudes to commercial property as an asset class.

IPF UK Consensus Forecast

Published on a quarterly basis the IPF UK Consensus Forecast provides a consensus view of the likely performance of the UK commercial property markets over the next 1,2,3 and 5 years. The contributors to the consensus are drawn from the fund management, agency, research and equity broker communities. The latest version is available on the IPF website with a summary report available for non-members.

IPF European Consensus Forecast

Published on a 6-monthly basis the European Consensus forecast provides a consensus view of prime rents in 24 European cities for the next 1,2 and 3 years. The contributors to the European Consensus Forecast are drawn from the investor, agent and research communities across Europe. The survey is published in May and November each year.

If you are in a position to provide data, contacts or any other type of support for these new research projects, please contact Louise Ellison, IPF Research Director at lellison@ipf.org.uk.

IPF Back Catalogue

The following projects have been funded and published through the IPF Research programme 2006-2010. Full reports are available for download by IPF members from the IPF website.

- ISPI - The Development of a Sustainable Property Investment Index (October 2009)
- Evaluation of Investment Vehicles in Urban Regeneration: a scoping study (August 2009)
- Green Leases – The Landlord and Tenant Relationship as a Driver for Sustainability (August 2009)
- Occupier Demand for Sustainable Buildings (March 2009)
- UK REITs: What can be Learnt from the US Experience? (March 2009)
- Costing Energy Efficiency Improvements in Existing Commercial Buildings (January 2009)
- Implication for the Strategic Development of UK Real Estate Investment Trusts from the development/experiences of LPT's in Australia (May 2008)
- Understanding the Retail Investor's Interest in Property Investment (May 2008)
- Alpha and Persistence in UK Property Fund Management (April 2008)
- Risk Management in UK Property Portfolios: a survey of current practice (December 2007)
- Large-scale Investor Opportunities in Residential Property: An Overview (November 2007)
- The Energy Performance of Buildings Directive and Commercial Property Investment: A situation review (October 2007)
- Asset Allocation in the Modern World (July 2007)
- The Use of Periodic Valuations in Indirect Property Investment (June 2007)
- Risk Reduction and Diversification (May 2007)
- Index Smoothing and the Volatility of UK Commercial Property (March 2007)

In addition to the projects listed above the following research projects have been funded through the IPF and IPF Educational Trust Joint Research Programme, some with additional partnership funding.

- Planning Policy and Retail Property Market Performance in English Towns and Cities (October 2008)
- Liquidity of Commercial Markets (April 2004)
- Opening the Door to Property: Assessing the Needs of Small Investors in Property (September 2004)
- Depreciation in Commercial Markets (July 2005)
- Investment Performance and Lease Structure Change in the UK (July 2005)
- The Size and Structure of the UK Commercial Property Market (July 2005)
- Disagreement and Uncertainty in UK Property Market Forecasts (January 2006)
- Institutional Investment in Regeneration: Necessary Conditions for Effective Funding (Jointly funded) (May 2006)
- The Investment Performance of Listed Office Buildings (Jointly funded) (May 2006)
- Pricing Property Derivatives: An Initial Review (September 2006)
- Property Stock Selection: Organisation, Incentives and Information (November 2006)
- The Sustainable Property Appraisal Project (Jointly funded) (November 2006)

PDF copies of all these reports are available for IPF members to download for free from the IPF website.

If you have any questions about the IPF Research Programme or about any of the reports listed above, please contact Louise Ellison (lellison@ipf.org.uk).

