

SWIP/BRINGING BUSINESS TO SCOTLAND

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SPF Autumn Conference

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Perform



PERFORM

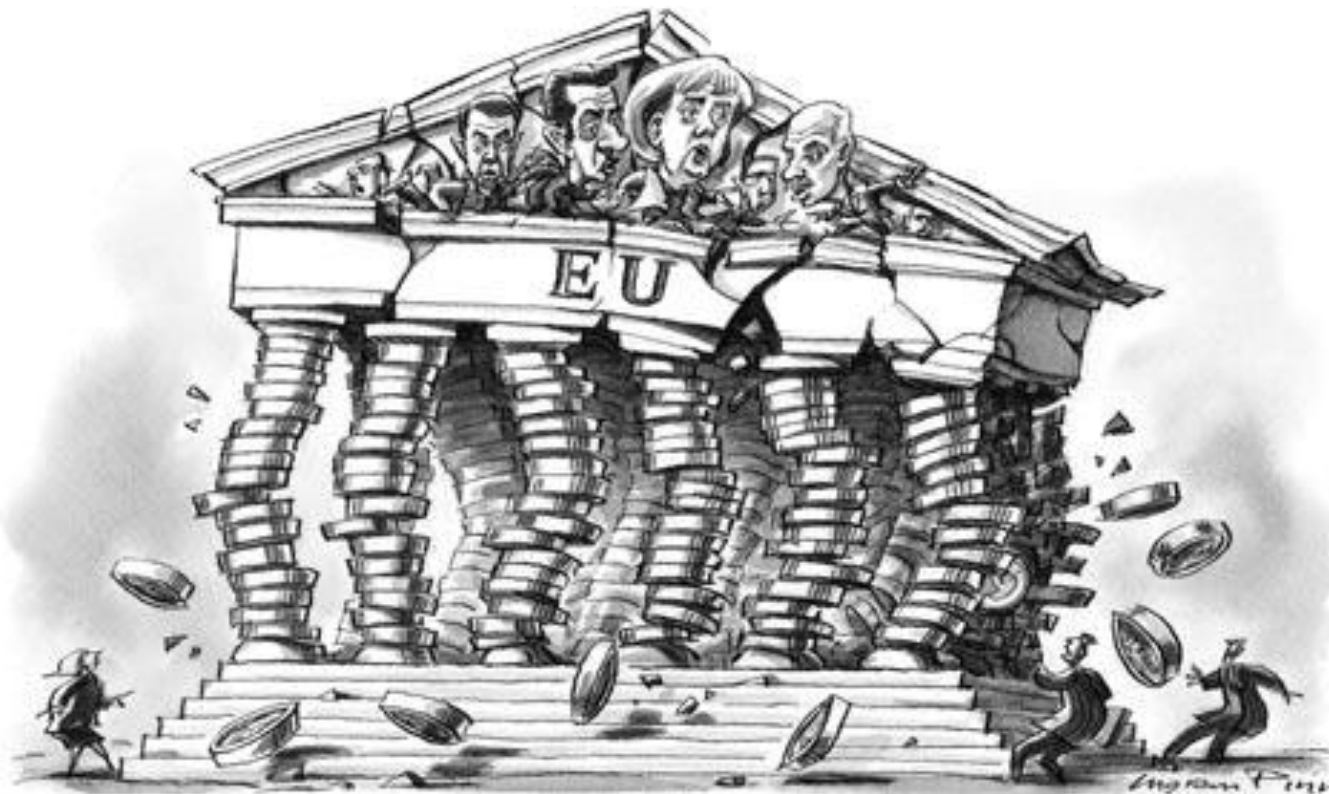
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The Greek problem



Not this one...



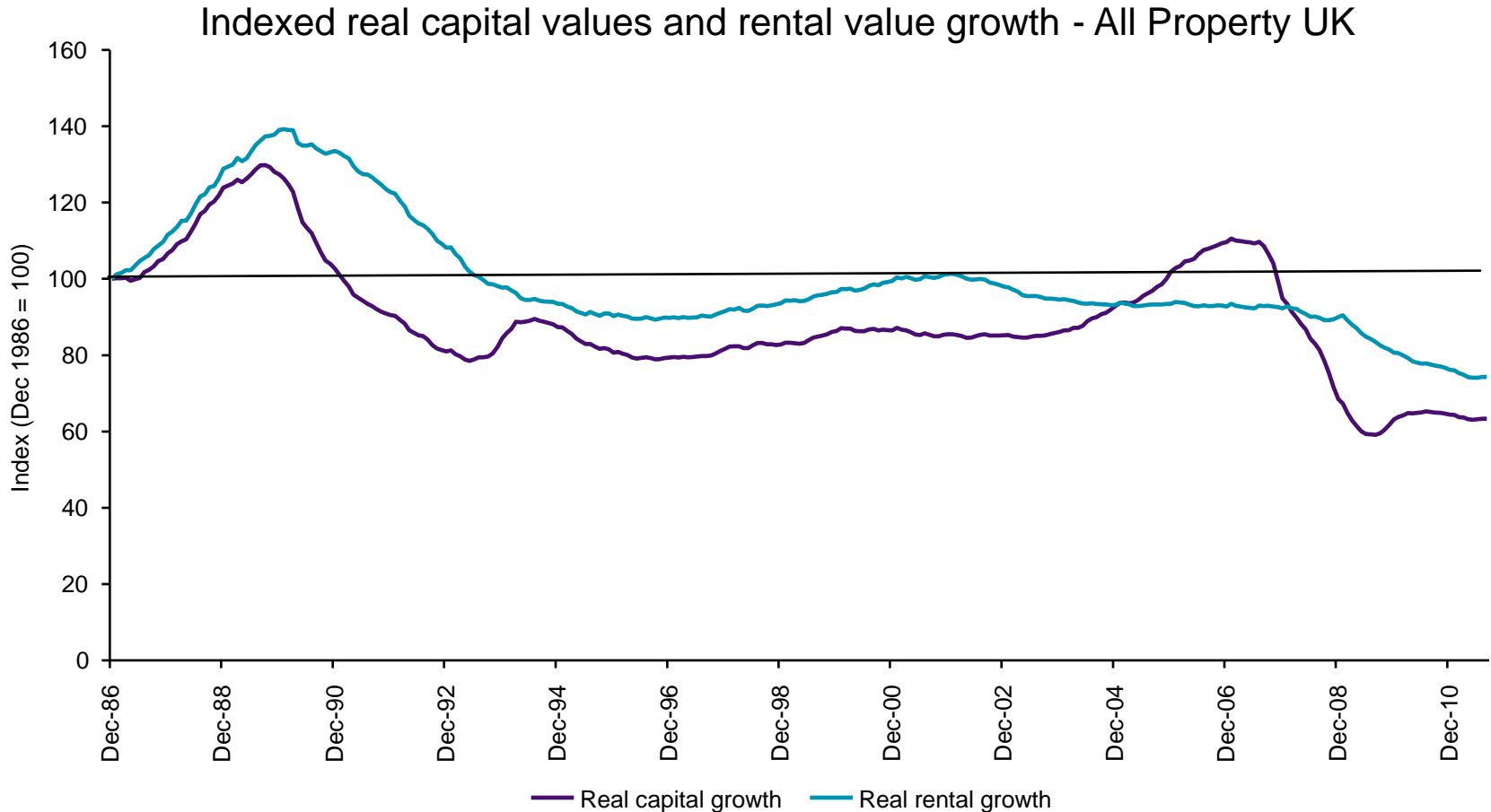
This one...

$$\beta + \alpha$$



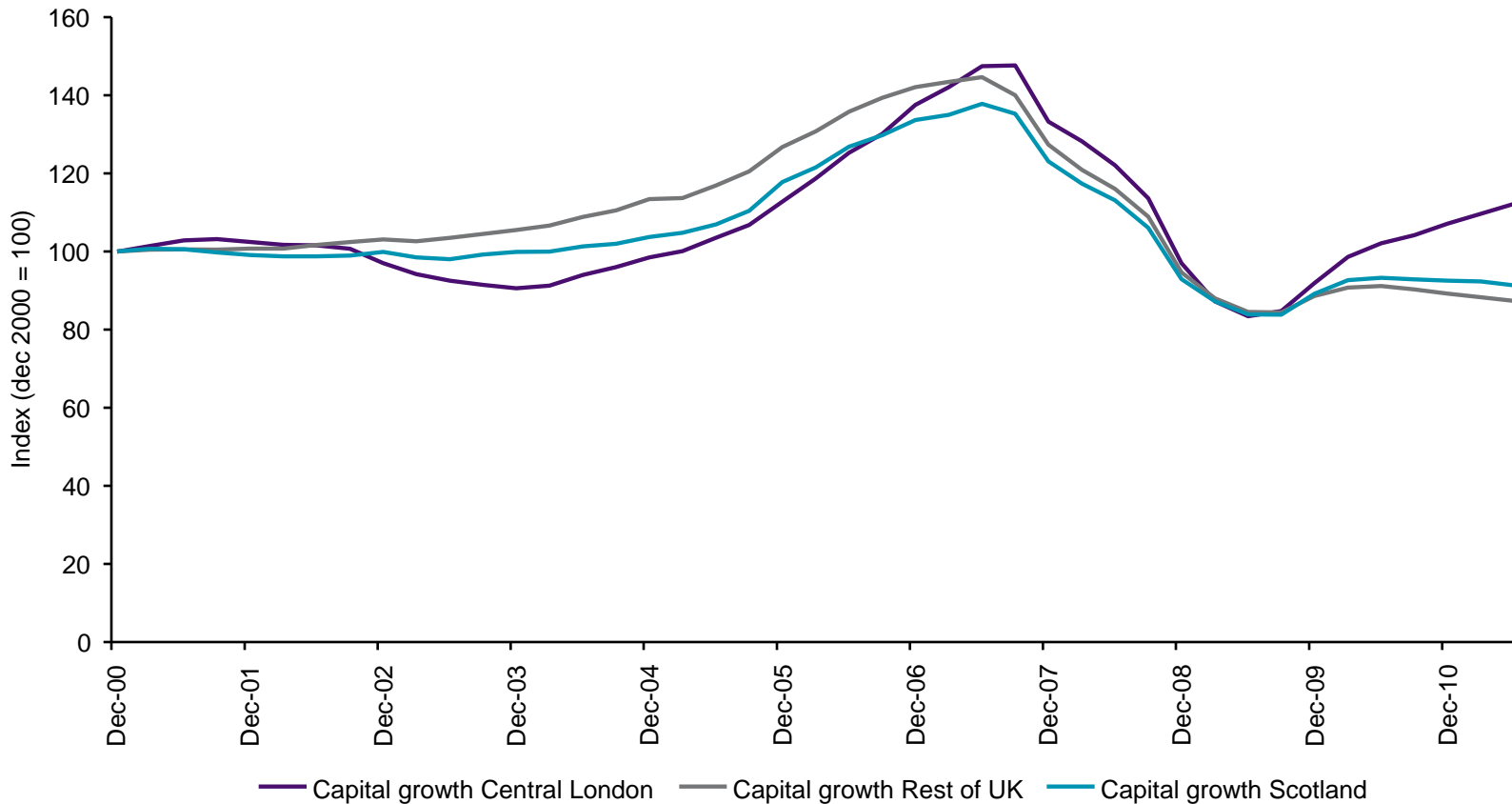
β

The property market in perspective



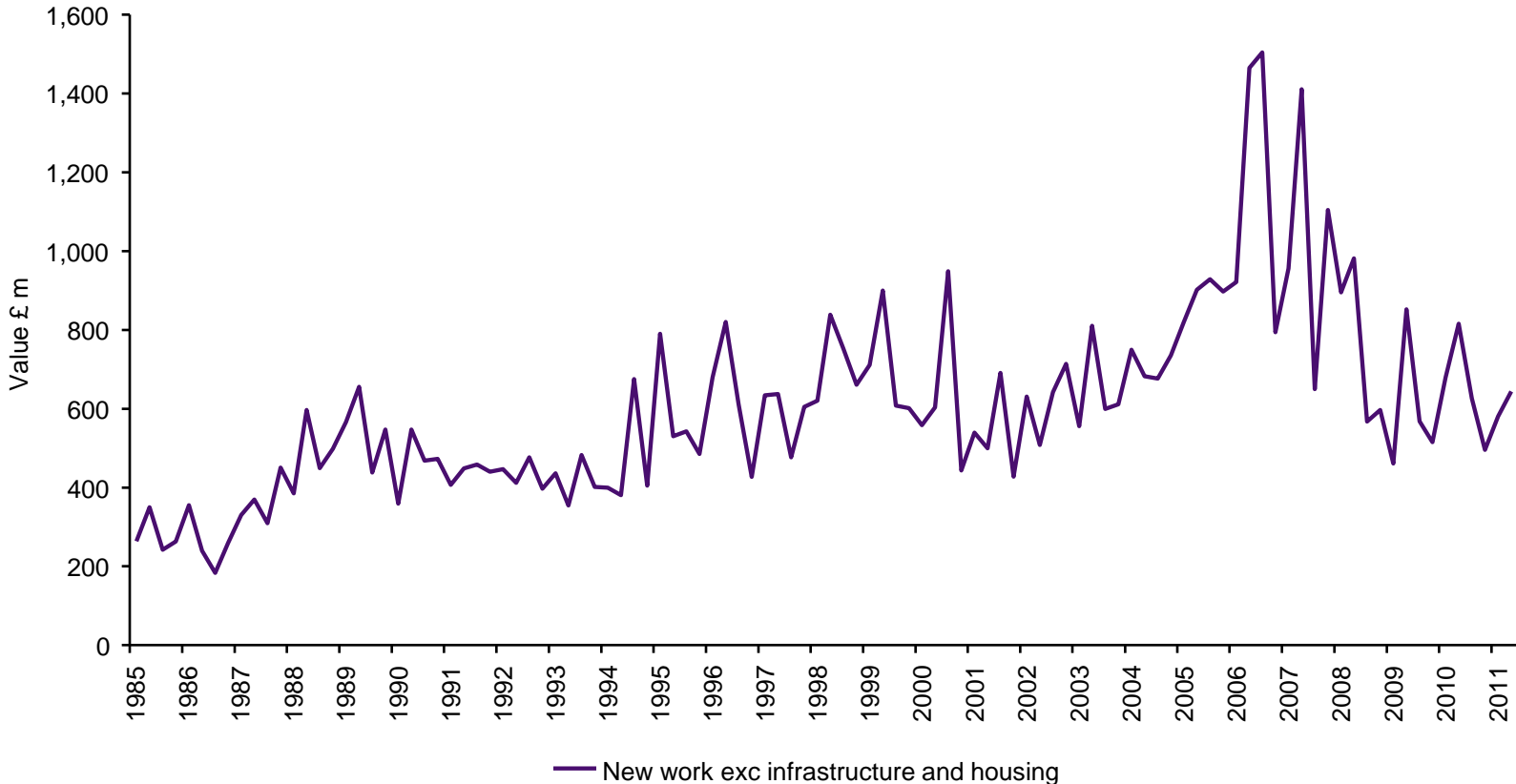
London outperforms from mid-2009 but more volatile

Capital growth in office markets



Construction orders slow from 2007

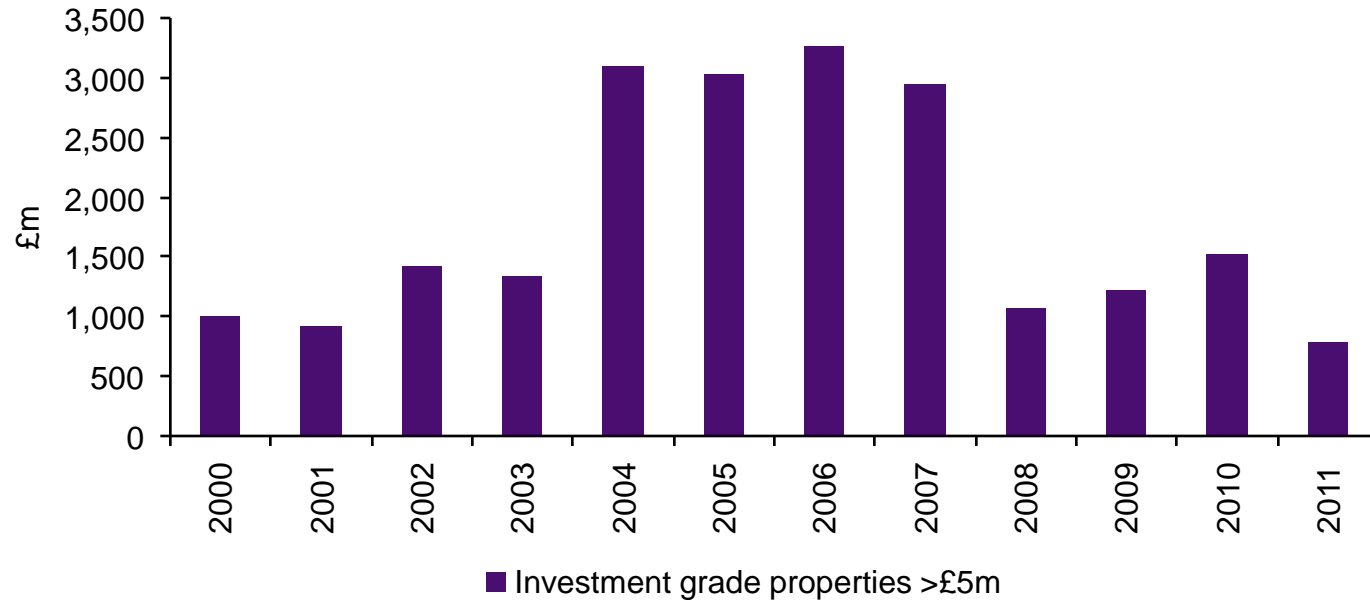
New work exc infrastructure and housing - Scotland



Uncertainty reflected in new construction orders...

Property transactions in Scotland

Property transactions (Scotland)



...and turnover

The UK recovery – still fragile in the context of global stress

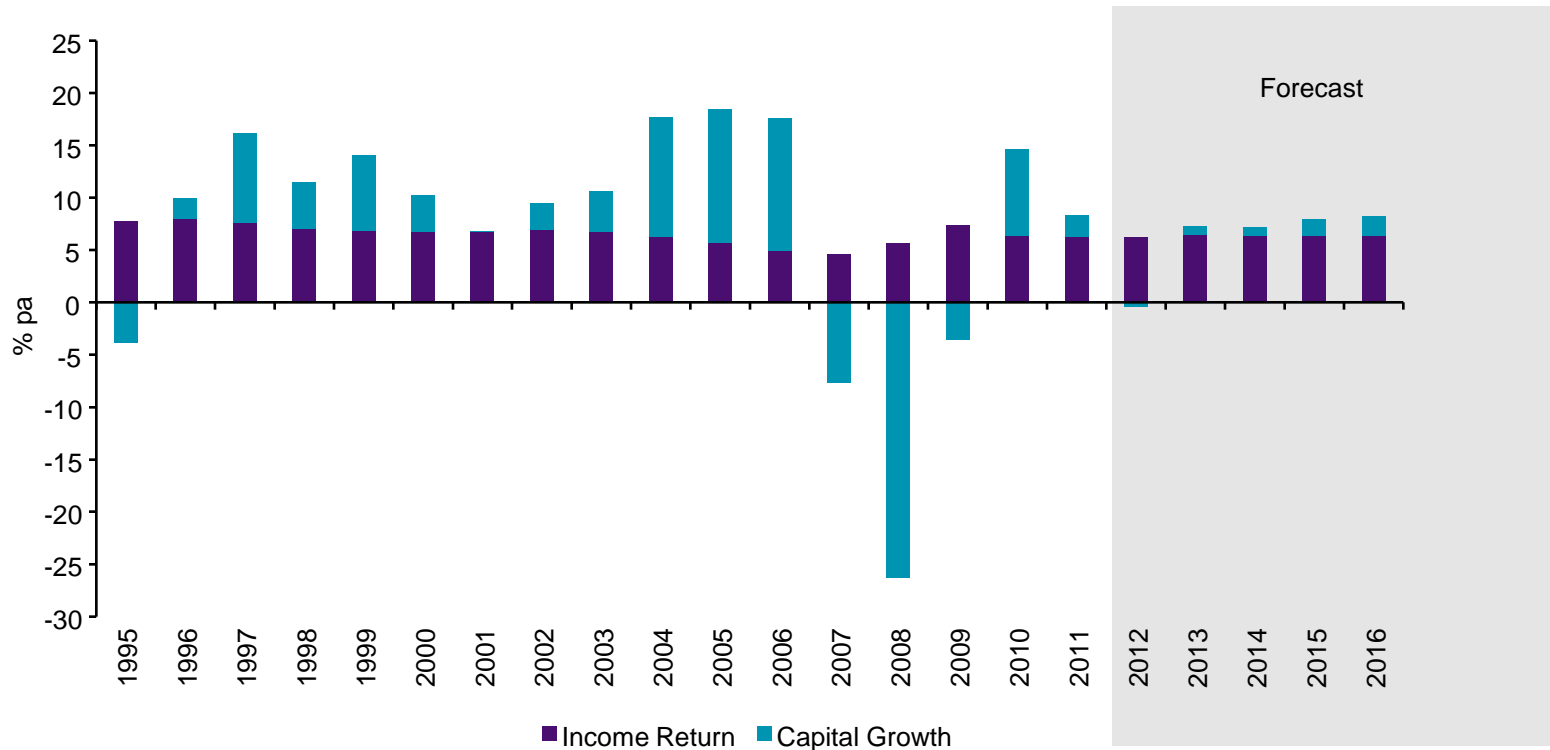
- ▶ Growth slowing in many economies not just UK
- ▶ Financial stress reacting to real economy not driving it
- ▶ Falling business confidence
- ▶ Eurozone focussed on the politics of debt
- ▶ What will drive growth with fiscal tightening in most major economies and policies based on exports and business efficiency?

What does this mean for property?

- ▶ Lower returns, driven by income
- ▶ Lower appetite for risk (eg less speculative development)
- ▶ Lending remains restricted
- ▶ Caution prevails (consumers and businesses)
- ▶ Prime property holds up, secondary weakens

UK Property returns

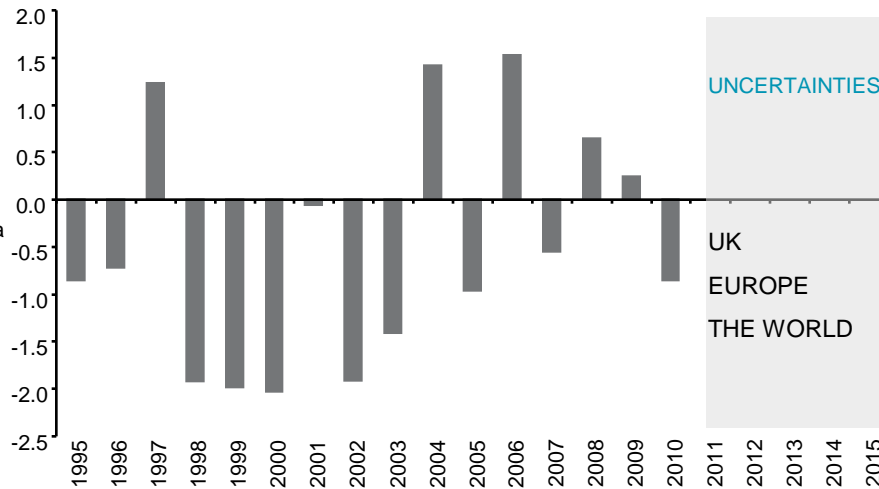
All property returns



With a strong down side!

Economic paradigms

Relative economic growth Scotland compared with UK



- ▶ Scotland a beta tracker?
- ▶ But 1995 to 2010 beta relative to UK was 0.75
- ▶ Average growth over this period in Scotland was 1.8% pa compared to 2.4% pa in the UK as a whole

Big question is how do we generate alpha - or at least improve beta?

13 Source: SWIP, based on Scottish Government and ONS 2011. Series are Gross Value Added chained volume measure at basic prices. Forecasts are opinion only, cannot be guaranteed and should not be relied upon when making investment decisions.



α

So what about alpha?

- ▶ Alpha is a powerful concept in investment and fund management that relates to the delivery of superior risk adjusted returns
- ▶ Can use the idea to think about economic performance relative to the UK. In this context we are talking about genuine (low geared) superior economic growth to the market (in this case UK)
- ▶ To generate alpha we need something special
- ▶ What are the options for Scotland?

There are choices...



...but which levers to pull?



Generate alpha through innovation and use of existing high level skills

- ▶ Scotland has many benefits
 - ▶ Innovative research in Universities and research institutions across many disciplines (eg, Edinburgh's bio-science quarter)
 - ▶ High skill levels across the workforce
 - ▶ Environment and a commitment to a greener future
- ▶ But
 - ▶ Need to sell ourselves
 - ▶ Need to provide good quality attractive commercial property at competitive prices
 - ▶ Need to provide economic and political stability to attract new business and grow existing domestic businesses

Alpha waves - what can we do in the short to medium term?

- ▶ Generate superior returns from current good performers
 - ▶ Financial and business Services?
 - ▶ Has shown good positive growth in 12 of the last 15 years
 - ▶ Is the largest grouping in terms of output in the Scottish economy (but still a smaller percentage than UK as a whole)
 - ▶ Energy services (oil, gas and renewables – especially Aberdeen and East Coast)
- ▶ Improve business environment
 - ▶ Flexible government response
 - ▶ Tax Increment Finance (TIFs) and local development
 - ▶ Phasing of planning gain
 - ▶ Stamp Duty Land Tax (SDLT)
 - ▶ Empty rates and large retailer levy
 - ▶ Planning

The elephant in the room...





Important information

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The information contained in this document has been derived from sources which we consider to be reasonable & appropriate. It may also include our views & expectations, which cannot be taken as fact. This information is supplied to you in confidence & you may not pass it on to any other party without prior written consent.

The value of investment is not guaranteed and can go down as well as up depending on investment performance. Past performance is not a guide to future performance. Furthermore, for non-sterling denominated investments, currency movements may cause an additional favourable or unfavourable change in value. Due to the above factors, investors may not receive back the full amount originally invested.

Investment markets and conditions can change rapidly and as such the views expressed should not be taken as statements of fact, nor relied upon when making investment decisions. Smaller companies may be less well established and carry a higher degree of risk than larger companies.

Forecasts are opinion only, cannot be guaranteed and should not be relied upon when making investment decisions.

Funds under management are an internal estimate.

Property is a specialist sector which could be volatile in adverse market conditions.

Commercial property is a less liquid asset than other asset classes such as bonds or equities and values could be affected if properties need to be sold in a short timescale.

Property valuation is a matter of judgement by an independent valuer. Therefore, the value of the underlying portfolio is generally a matter of a valuer's opinion rather than fact.

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