ST BRIDE’S MANAGERS

Bull and Bear

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ST BRIDE'S MANAGERS

Bull and Bear

A Review of 2021

Bull and Bear meet up for the first time this year to review the year that was 2021. They will be meeting every Sunday to discuss the key topics impacting the property industry.

Bull: Who would have thought it? After what feels like forever, we are back…and with our own Sunday morning weekly gig!

Bear: For the timing being… but remember it all depends on how St Bride's loyal readership take to us!

Bull: They'll love us. I can just feel it in my bones. In times like these, we all need something to brighten things up. We are that so-called fourth booster everyone has been suggesting!

Bear: Steady on. But I can't argue with the fact that everyone wants some relief from COVID, some direction of what may lie ahead… and someone to put a smile back on their faces. And that is us!

Bull: We've all just got to accept that COVID is not going away anytime soon. We need to continue to adapt, look forward and not dwell on the past!

Bear: Very true. But haven't St Bride's asked us to kick off with a review of last year? I know going forward, every Sunday we will be discussing a key topic impacting the property industry, but today they just wanted a review. In cricketing terms, it's a gentle loosener to kick off the year.

Bull: Gentle looseners are all that the England Test team seem capable of bowling at present, isn't it? It's been terrible viewing. I'm just glad it's on when we are asleep.

Bear: So true. I'd quite like to do this review by way of an A to Z… using one word starting with each letter of the alphabet to remind us of what 2021 was all about. We're bound to have multiple words for some letters, but others might well be more challenging, the letter X for example.

Bull: I like that idea. But we're not going to agree on everything, are we?

Bear: Why would we change a habit of a lifetime? Okay. I'll let you go first. A. What's your word starting with A that helps review 2021?

Bull. That's easy. Ashes. 2021 was the year England put in their worst Ashes performance ever. Embarrassing. Gutless. Woeful. You name it, they were it. Apart from any good!

Bear: Agreed, but I am going for Adele. After a six-year sabbatical, her album '30' was the biggest selling album of 2021 in the UK, despite the fact that it wasn't released until midway through November! She is also now reportedly buying Sylvester Stallone's Los Angeles mansion for £43m…Adele has to be A.

Bull: Fair enough. For B, where do we start? Boris, Booster, Brexit? Bushfires? But, for me, it must be Build-to-Rent. Driven by the ongoing housing shortage here in the UK, investment into this sector went through the roof last year. £4.1bn according to CBRE, some £300m more than 2021.

Bear: That's a good shout for letter B. I was going to go with Bitcoin. It shot up by about 60% last year as both large institutions and retail investors began to accept it as a more mainstream investment. And El Salvador made Bitcoin legal tender in July!

Bull: Utter madness! C must be COVID. Can you recall a time when you had a conversation with someone, and you didn't use the C word?

Bear: No. And again, I can't argue with you Bull. But COP26 surely merits a mention. Whilst the outcomes may not have been as far-reaching as expected or hoped for, the "Glasgow Climate Pact" that emerged from the summit is certainly another step in the right direction.

Bull: Agreed. D has to be for the Duke of Edinburgh who sadly passed away back in April. What an extraordinary life he led and what outstanding service he gave our country.

Bear: Here, here! I was going to mention Donald, what with his presidency ending in January and his association with the riots on the Capitol building. However, putting the Duke and the Donald in the same sentence seems just plain wrong.

Bull: E. Another letter where we have plenty of choice. Euro 2020 and England's charge to the final, only again to lose out on penalties to Italy. Ever Given. You'll recall that huge ship that got stuck in the Suez Canal, causing chaos for supply chains across the world. Electric Cars is another. Did you know that more electric cars were registered in 2021 than in the entire preceding five years?

Bear: On that note. I was going to mention ESG. It's everywhere, isn't it? The global impact of ESG investing continues to grow, and it's going to have huge implications for the asset management industry. According to a report by Broadridge Financial Solutions, assets in ESG funds, ETFs and institutional mandates could hit $30tn globally by 2030.

Bull: Going to? It already has!

Letter	Key Words
A	Adele, Ashes
B	Build-to-Rent, Bitcoin, Boris, Booster, Brexit, Bushfires
C	COVID, COP26
D	Duke of Edinburgh, Donald Trump
E	ESG, Euro 2020, Ever Given, Electric Cars

A Review of 2021

Bear: F has to be for Furlough, even though it has now ended.

Bull: That's a good one. Mine was Facebook, or Meta as it is now known. Furlough certainly made a difference though, didn't it? Since its launch back in March 2020, 11.7 million jobs have been protected. Who knows what state the UK economy would have been in without it?

Bear: It doesn't bear (excuse the pun) thinking about, does it? For G, I'm going with Greta. Like her or not, she is certainly continuing to raise awareness of climate change.

Bull: Fair dos, but I'm staying loyal to our animal friends and going with Geronimo. I'm convinced that that poor alpaca was put down quite unnecessarily.

Bear: Moving quickly on! H has to be for HS2. The Government's cancellation of the planned HS2 line between the East Midlands and Leeds in November, was, if not unexpected, certainly disappointing for the folk up north. And as for helping Boris's drive to 'level-up', he has shot himself in the foot... again!

Bull: I'd have gone for Hancock, as in Matt. He certainly had a 2021 to remember…if not for the right reasons.

Bear: I is another letter where our choices appear plentiful. Injections? Inflation? CPI rose by 5.1% in the twelve months to November, up from 4.2% in October, which was itself the steepest increase for a decade and more than double the Bank's target!

Bull: Personally, I'm going for Industrials. Demand from investors and occupiers alike has been truly remarkable. Industrial and logistics investment volumes for the eleven months to the end of November were 36% higher than the full year in 2020, whilst fierce bidding continues to push up prices. Yields for prime industrial estates in Greater London are now 3.00% according to CBRE.

Bear: J is for Joe Biden, the 46th President of the United States. Apparently, Joe ended 2021 with only 43% approval from American voters. His numbers are upside-down from his Inauguration Day last January. No President since World War II has seen such a massive slide over such a short period of time.

Bull: K has to be for Kamela (Harris). Last year she became the US's first female, Black and South Asian Vice-President. Her inauguration marked a turning point in American history.

Bear: Absolutely. Unlike the letter K, L is another letter where the choice is endless. Line of Duty Season Six was brilliant TV. L could also be for Lilibet, daughter of The Duke and Duchess of Sussex, who was born in June. But for me, L has to stand for Lockdown. Although it's hard to keep up, I seem to recall that this time last year we had just entered a third national lockdown.

Bull: I won't argue with Lockdown for L, although Logistics is worthy of a mention…if not a sentence.

Bear: M should be for Musk, as in Elon. According to Forbes, he remained at the top of the world's rich list going into 2022, with his net worth climbing to $304.2 billion. Time Magazine also named him as their Person of the Year for 2021.

Bull: Merkel merits a mention, with her lengthy tenure as Chancellor of Germany coming to an end in December. As does Macron, probably, plus The Masked Singer was a great addition to the TV scheduling too.

Bear: N has to be for the NHS and all their sterling work. Surely you won't argue with that one?

Bull: Of course not, but I had scribbled down National Insurance (with the impending rise in April) and Non-Fungible Tokens as other ideas.

Bear: O has to be for Omicron, the most recent variant to this pesky virus.

Bull: Yup. For P, I had Pingdemic, Plan B and Paralympics. But it's got to be Pandemic, hasn't it?

Bear: Maybe. But how about Property? After all, that's the business we are in! According to CBRE's November Monthly Index, total returns from All Property were 15.1% for the year to date, driven primarily by nearly double-digit capital growth.

Bull: Shall we go for Property then?

Bear: Definitely. Q is COVID-related anyway, what with Quarantine.

Bull: Again, a solid shout. But don't forget Quantitative Easing. In December, the Bank of England raised interest rates to 0.25% and kept the total size of its bond-buying programme unchanged at £895bn.

Letter	Key Words
F	Furlough, Facebook
G	Greta, Geronimo
H	HS2, Hancock (Matt)
I	Injections, Inflation, Industrials
J	Joe Biden
K	Kamela Harris
L	Lockdown, Line of Duty, Lilibet, Logistics
M	Musk, Merkel, Macron, Masked Singer
N	NHS, National Insurance, Non-Fungible Tokens
O	Omicron
P	Property, Pingdemic, Plan B, Paralympics, Pandemic
Q	Quarantine, Quantitative Easing

Bull and Bear

A Review of 2021

Bear: For R, I'm going with two hugely influential women in sport. Rachel Blackmore became the first female jockey to win the Grand National and she was also crowned the lead rider at the Cheltenham Festival. Emma Raducanu became the first British woman to win a Grand Slam singles title since Virginia Wade in 1977.

Bull: Absolutely. Our word for S could again be one of many. Southern Brave won the inaugural men's Hundred cricket competition in August. Squid Games was a Netflix sensation. Apparently 142 million households watched the series in the first four weeks after its release on 17 September. Sustainability clearly merits a mention too.

Bear: S has to be for Sleaze and Scandal. How much of it do you need for it not to be the S word of the year? From £200m yachts and Christmas parties, to illegal bike rides and CCTV footage of the former Health Secretary snogging a colleague during lockdown, 2021 was a bumper year for Government Sleaze and Scandals!

Bull: For T, I went with Tokyo, given it was the host city for the delayed Olympics and Paralympics. TikTok was a close second though. Did you know that TikTok was the most popular website in 2021, surpassing even Google, according to Cloudflare?

Bear: I didn't know that. Although my T doesn't deserve to be highlighted, it would probably be wrong not to mention the Taliban too. What happened in Afghanistan last year was a real tragedy.

Bull: Indeed. U has to be for the USA Ryder Cup team. I know they had home advantage at Whistling Straits, but they didn't half give Team Europe a pasting. Their 19-9 victory was the largest margin of victory in Ryder Cup history since the 28-point format came about.

Bear: V has to be for Vaccines. No argument.

Bull: True, although Sir Patrick Vallance, the Chief Scientific Adviser to the Government, merits a mention too.

Bear: Nice segue there to W, as Sir Chris Whitty featured highly on my list. As did Jackie Weaver for her role in that Handforth Parish Council meeting in February.

Bull: But W has to be for Working from Home. The implications for the property industry are only slowly starting to play out. Remote working over the pandemic has led us to reconsider the purpose and function of the office. Most of us will wait until things have properly settled down again before making firm decisions on space needs. But initial research does indicate that workers seem to like a mix of time in and out of the office.

Bear: X is not an easy letter to do. Any ideas?

Bull: I'm slighting cheating here, but how about the Government's reported Xmas parties? Or SpaceX, with the launch of the first-ever mission to Earth's orbit with a crew of only tourists?

Bear: That is cheating. I went for Xi Jinping. 2021 was a year that saw him tighten his grip on power in China. The 20th Party Congress is scheduled for October. And Mr Xi's been working hard over the last twelve months to ensure its outcome is a fait accompli.

Bull: Y is for Yorkshire Cricket Club… for all the wrong reasons, mind you!

Bear: Fair enough, but I've gone with Yoshihide Suga. He stood down as Japan's Prime Minster in October 2021, after only a year in charge. It's fair to say his tenure did not go as well as planned!

Bear: For Z, the final letter, it must be Zoom. 2021 was the year of Zoom!

Bull: It sure was. It was apparently used in nearly 200 countries around the world… and according to Zoom, the top day of the week for meetings was Wednesday, the average meeting length was 54 minutes, with the average meeting size being ten participants.

Bear: They still don't compare with face-to-face meetings though if you ask me!

Bull: There will be no argument on that from me.

Bear: I really enjoyed that canter over the last twelve months. It's made me realise that whilst we did spend a lot of time at home, the world still turned and lots of positive things did happen.

Bull: That's the spirit, Bear. A new year, and perhaps a new positive approach to life from you? Long may it continue!

Bear: I wouldn't bank on it if I was you!

Bull: So, what's our topic of discussion next week?

Bear: Let's both put our thinking caps on over the next few days. You never know.... Monday's IPF webinar titled *'Outlook for UK Property 2022'* might provide us with some decent ammunition! Let's have a quick chat on the phone afterwards.

Bull: That sounds like a good plan. Have a good week and I look forward to catching up with you next Sunday morning.

Letter	Key Words
R	Rachel Blackmore, Emma Raducanu
S	Sleaze and Scandal, Southern Brave, Squid Games, Sustainability
T	Tokyo, TikTok, Taliban
U	USA Ryder Cup Team
V	Vaccines, Sir Patrick Vallance
W	Working From Home, Sir Chris Whitty, Jackie Weaver
X	Xi Jinping
Y	Yorkshire Cricket Club, Yoshihide Suga
Z	Zoom

Bull and Bear

Investment Case for 2022

Over a gentle game of darts in the St Bride's Tavern, Bear and Bear weigh up the investment case for UK real estate at the start of 2022.

Bull: Good morning, Bear. You are looking rather dishevelled! Have you been up all night watching the Ashes and praying that England can pull off an unlikely victory?

Bear: Charming as ever, Bull. I'll have you know that I don't look half as ruffled as the English batsmen do out in the middle. In fact, I was pacing my bedroom until gone 3am trying to answer the question we've been given by the team at St Bride's.

Bull: What question? I've been too busy keeping up with the Novak deportation saga and all the Downing Street lockdown parties to open work emails.

Bear: Oh, Bull. Honestly. Time to focus. The question is...should investors be putting their money into UK real estate in 2022?

Bull: That's easy. The answer is "Yes".

Bear: Insightful as always, Bull! I stayed up all night making pages and pages of notes, and you provide a one-word answer. I've got a whole list of reasons why our readers should be cautious.

Bull: I'd have expected nothing less, Bear. What's the old saying about a leopard and changing his spots?! Listen, if I need to convince you of the compelling investment case for UK real estate in 2022, why don't we put together a SWOT analysis? You get to jot down your concerns, and I get to demonstrate all the overwhelming reasons why you're being too Bearish! It'll be cathartic for you.

Bear: Agreed. At least that will cut through all your Boris-style bluster and force you to engage your little grey cells. Why are you so convinced in the case for UK real estate then?

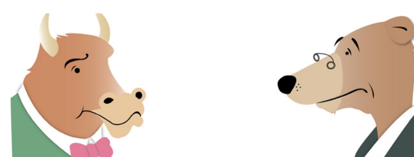
Bull: Well for starters, Bear, just look at the favourable macro-economic picture. The pace of the V-shaped rebound has been extraordinary. Only on Friday, the ONS announced that the UK economy has surpassed pre-Covid levels. Despite everything that's happened, GDP is now 0.7% higher than it was in February 2020.

Bear: Hold on a second, Bull. GDP growth indicators tell a very narrow story. What about the billions of pounds of debt the Government incurred bailing us out of the COVID crisis, not to mention all the supply-side issues facing the economy and the re-emergence of inflation? I had 2022 down as the year of the household income squeeze. That's hardly a supportive economic backdrop.

Bull. All valid points, my dear friend. But the unprecedented response from the UK Government has limited the economic "scarring" from the COVID-19 pandemic. There's plenty of scope for the UK economy to expand to its pre-pandemic growth rate. And property should benefit from this rising tide.

Bear: I do envy your boundless optimism sometimes, Bull. But even you can't hide from the fact that the economy is facing some serious supply-side issues. There are huge supply chain bottlenecks and delivery times are the worst they've been since the outset of the pandemic. Have you forgotten that Asda had to charter their own cargo ship to protect Christmas orders? We're dealing with a major supply crunch.

Bull: I'll admit we had an almost 'perfect storm' with the combination of Brexit and COVID-19 pushing up the costs of materials and labour, but the good news is that these price increases are set against a backdrop of increased consumption. The demand will still be there once the supply-side issues have been resolved. Just look at the number of job vacancies waiting to be filled!

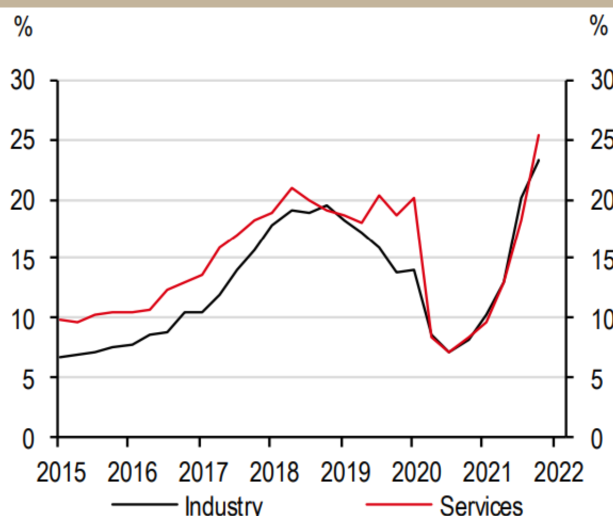


STRENGTHS	WEAKNESSES
Economic rebound underway	Supply chain issues
High level of consumer savings	Labour shortages
High relative income return	Construction price inflation
Underpinned by structural and demographic changes	Rising interest rates
Robust investor appetite	Household income squeeze
OPPORTUNITIES	**THREATS**
Counter-cyclical retail	COVID-19 (variants)
Embrace ESG	China and Russia
New disruptors in the market	Brexit
Proptech	Rising bond yields
Re-purposing	"Black Swan" events

Investment case for 2022

Bear: Or, more to the point, the cost and challenge of hiring new staff! This tweet from the CEO of the Timpson Group sums it up for me: "It's hard to recruit great people from prison because so many other companies are now knocking on their doors too." Enough said on the current labour shortage.

Share of EU firms reporting production constraints from labour shortages



Source: HSBC, Refinitiv Datastream

Bull: Hold on. Didn't he say it was a nice problem to have?

Bear: For the prisoners. Not the economy, Bull! All these supply-side issues are driving up inflation and the prospect of rising interest rates in 2022. You aren't about to tell me that the resurgence of inflation is good for the economy, are you?

Bull: Calm down, Bear. Our friends at the Bank of England aren't racing to raise interest rates because the inflation spike is likely to be transitory, driven by these supply-side issues you keep going on about. And besides, raising interest rates won't help find more lorry drivers or deliver new gas pipelines!

Bear: Well, I can tell you that construction price inflation in the property sector is no joke. Did you know that by the end of September 2021 steel prices had increased over 70% year-on-year? Construction activity is already being held back by long waiting times, tender price uncertainty and last-minute gazumping, amongst a myriad of other problems.

Bull: I'll concede that the unprecedented rise in build cost inflation brings its challenges, but this is still set against a backdrop of strong demand, especially from the housebuilding sector and large infrastructure projects.

Bear: So, you are not worried about the prospect of rising interest rates in 2022? The markets are already pricing in rate rises.

Bull: They are. But if the inflation spike is transitory, we are only likely to see very gradual monetary tightening. I don't anticipate anything more than a modest rise in borrowing costs over the next twelve months. And besides, even if they rise marginally, interest rates will remain at historically low levels. And that can only be good for property!

Bear: How so?

Bull: Income return, my dear Bear. Income return. One of the key strengths of property is its high income return relative to other asset classes. The wider search for income will benefit real estate.

Bear: Even at the steamy prices investors are currently paying for logistics assets? According to CBRE's latest data, prime distribution yields are 3.50% and prime yields for estates in Greater London are 3.00% (and trending stronger).

Bull: That's all about the rental growth story, Bear. The logistics sector delivered average rental growth of 7% per annum in 2021 and London is expected to see annual rental growth of between 6% and 9% over the next five years. The demand/supply story there is compelling. Vacancy rates have fallen to below 3%.

Bear: Point taken. I suppose what you are really saying here is that structurally supported sectors (like logistics) will deliver reliable income returns, with prospects for rental growth. I am not sure I could say the same for all sectors of the property market though!

Bull: You could say it for a lot of them, Bear. The wider demographic trends in the population will continue to fuel an ever more desperate search for income and all those operational real estate sub-sectors with long income and good covenants are particularly well positioned to benefit. Think healthcare, student accommodation, roadside, even hotels when these COVID restrictions are finally lifted.

Bear: That's true.

Bull: And, what's more, index-linked leases can also offer a hedge against inflation. Does that offer you some comfort?

Bear: I'll buy the income argument, but what about the sub-sectors of the property market that aren't supported by structural and demographic changes? What about new agile working patterns? The future of the office is under threat.

Bull: That's a whole topic in itself, Bear. I agree that the outlook for offices is uncertain and increasingly difficult to predict. And we need to be realistic on the long-term impact of changing working practices on occupational demand. But offices aren't under threat. They just need to be reimagined.

Bear: Profound words, Bull. I suppose you are ready to reimagine the High Street as well? With a few less vacant units no doubt!

Investment case for 2022

Bull: And that's the difference between us, my fuzzy nosed friend. Where you see risk, I grasp opportunity! But I am not going to sit here and pretend that the online penetration into the retail sector (turbo-charged by the pandemic) hasn't had a major structural impact on the retail sector.

Bear: You're not?

Bull: No. But there is an argument that the worst of the retail value destruction we've seen over the last three years is behind us. And there is an opportunity for a counter-cyclical 'play' in the High Street and Shopping Centre sub-sectors, with their higher returns and less competition when compared to other property sub-sectors.

Bear: Well, you certainly can't buy prime assets for 8% or 9% in any of the other sectors!

Bull: Which is why some investors are already making their move. There is evidence of a significant upturn in activity in the 'High Street' investment market.

Bear: I'm still torn. Those yields are attractive. But it would be a bold investor to price in rental value growth on UK High Streets anytime soon. I am not sure I am ready for a counter-cyclical play.

Bull: Well, you better decide quickly, Bear. I don't think they'll be any shortage of overall investor demand in 2022. Investment volumes reached £55bn in 2021, a 15% increase on 2020, and the head of research at NatWest's Real Estate Finance division has gone on record to say he thinks 2022 will very likely deliver the highest volume of investment of any year since the EU referendum.

Bear: It's all very well having a robust investor appetite, Bull, but unless we urge an element of caution some investors are likely to come unstuck. You listed ESG as an opportunity, but there is a real risk that investors will overlook this issue. Sustainable, responsible investment costs money.

Bull: Which is exactly why I encourage our readers to embrace ESG (and reap the long-term benefits!). The direction of travel is only one way, so investors who position their assets to meet the changing and more stringent demands on ESG matters will find their assets are cheaper to run, easier to let and likely to command a "green" premium over buildings that fall behind.

Bear: I'd agree with that.

Bull: So are you persuaded yet? Should investors be putting their money into UK real estate in 2022?

Bear: I think you've put forward a strong case for structurally-supported property in a range of sectors. And for as long as that wide gap remains between bond yields and property yields, the income will prove attractive. But…

Bull: I was waiting for the but!

Bear: But...before we forecast a "Bull year" (!) for 2022, I think we need to step back and acknowledge some of the wider risks that could still cause an unwelcome economic shock.

Bull: The dreaded 'C' word?

Bear: Two 'C' words. And the 'B' word too, I am afraid. COVID, China and Brexit. I am ignoring the other 'B' word (our rather hapless Prime Minister, Boris).

Bull: Well, I suppose the good news is that at least the Omicron variant appears to be milder than previous varieties. I fully accept that the virus (and the threat of a nasty mutation) isn't going away anytime soon. There's always a chance a new variant of concern emerges. But China? Not sure I follow your argument there.

Bear: I think China presents a risk on several fronts. Not least in terms of geo-political stability.

Bull: Surely you could say the same about Russia? The Ukraine situation is much closer to home.

Bear: Very, true. But China's "zero tolerance" COVID policy could end up having knock-on impacts on the already stretched global supply-chains I've been banging on about. Right at this moment, millions of people in China and Hong Kong are in lockdown as China continues to battle outbreaks ahead of the Winter Olympics next month.

Bull: And what about Brexit? I thought that was dealt with over a year ago?

Bear: Yes, but it's continuing to make its impact felt. Particularly in terms of UK exports. And don't forget that from January 2022, all customs declarations are having to be made prior to arrival at the border. European companies will take some time to adapt to these new arrangements, potentially putting even more pressure on the already fragile supply-chain.

Bull: You and your supply-chains, Bear! I guess if I've learned anything from the COVID-19 pandemic it is to prepare for the unexpected. Even an eternal optimist like me can't' rule out another "Black Swan" event.

Bear: And if I have learned anything over the last twelve months, Bull, it is that property still has the capacity to surprise on the upside. It delivered double-digit returns in 2021 and I wouldn't bet against it doing so again in 2022.

Bull: So are we in?

Bear: Yes, we are in.

Will Edinburgh remain No.1?

Back in the St Bride's Tavern, Bull & Bear discuss whether Edinburgh will remain St Bride's Number 1 Key UK City in 2022.

Bull: Good morning, Bear. I trust you've had a better week than Boris... or poor old Andy Murray.

Bear: Yes thanks, although that hasn't been that difficult. Anyway, I'm slightly pushed for time today. I've got a train ticket for Edinburgh later this morning and I can't afford to miss it. The cost of domestic train travel in this country is a disgrace!

Bull: Why are you heading up there?

Bear: You know me. A bit of work. A bit of play. It's Burns night on Tuesday which is a real highlight in the McBear clan's diary. Moreover, I know that St Bride's will soon be starting to put together their Key Cities research for 2022. You will recall Edinburgh came out top last year and I want to be equipped to give my opinion on it.

Bull: That's highly commendable of you. But I don't see why you are bothering, save, of course, for your free night out on Tuesday. Edinburgh has been St Bride's No.1 Key City every year since they launched their UK rankings in 2014. What's there not to love about 'Auld Reekie'?

Bear: Without immediately wanting to dampen your enthusiasm, Bull, you cannot ignore the enormous elephant in the room. You will recall there was an asterisk beside Edinburgh's name in the 2021 report, implying that ''any change to Scotland's place within the UK would probably impact Edinburgh's score.''

Bull: But nothing has changed since June last year. Despite Nicola's blustering, Scotland has already had its 'once in a generation' referendum back in 2014. Eight years isn't a generation in my book! I know the vote was relatively close, but the Scots voted to stay.

Bear: True, but we've not seen the back of the Scottish Independence movement. In fact, from what I have heard, the rumblings are getting ever-louder.

Bull: Sorry Bear. That's me. I haven't had my full English breakfast yet!

Bear: Come on Bull. Focus. Nicola wants a second independence referendum next year, no doubt to capitalise on the rising popularity of her pragmatic approach to the pandemic. Political polls have ticked back into the YES camp and seem to indicate that 55% of Scots would vote for independence if there was a referendum today.

Bull: I saw that. Boris' ongoing antics, coupled with a depleted Scottish Labour Party presence, really haven't helped the Unionist's arguments, have they? And with Scotland only receiving £172m of the £1.7bn available in the first round of the Government's Levelling Up Fund, this is bound to add fuel to the already blazing fire.

Bear: Absolutely.

Bull: Well, you know that I'm not really one for political debate. It just doesn't float my boat. Never has. Never will. But what I will say is that there are still some outstanding 'details' to be ironed out. Think currency, the future relationship with the rest of the UK … and possibly the EU, and how the border with England would operate. Just look at the shenanigans over in Northern Ireland.

Bear: Exactly. But, we are going off piste. What St Bride's will want to know is whether Edinburgh will hold its No.1 UK Key City spot?

Bull: In my judgement, it definitely will. The Edinburgh economy is expected to grow by 5.50% this year. That's more than double its pre-COVID ten-year average of 2.60%.

Bear: Yes, but all of the UK's regional economies are expected to bounce back stronger this year!

Bull: That may be so. But according to PWC, at -9.1%, the fall in Edinburgh's GVA was the least of any UK City in 2020. It has a lot going for it, not least in its commercial and residential property markets.

Bear: Really?

Bull: Don't you recall the conversation we had with our good friends in Cushman & Wakefield's Edinburgh office?

Bear: Of course I haven't forgotten. It was only on Thursday afternoon!

Bull: So, why were you so surprised when I said that Edinburgh's property markets have a lot going for them?

Bear: Because, once again, you are making a wildly sweeping generalisation. The disparities between the different sectors, like in most cities right now, are stark.

Bull: I disagree. Despite all the COVID-related restrictions, there continues to be healthy demand from occupiers for good quality office space in the city. Supply is tight and with no new office developments due to complete this year, pent-up demand will inevitably push rents up from their current level of £37.50 per sq ft.

ST BRIDE'S MANAGERS

Bull and Bear

Will Edinburgh remain No.1?

Bear: That may be true, but when was the last time you walked along Princes Street? It may not be as bad as Fleet Street (London), but the number of large vacant units is so depressing.

Bull: Fair doos, but hopefully on the back of improving international tourism, the city's retail story will pick up. Anyway, whilst you are there, would you mind taking a few photos of the new St James' Quarter? I've heard it's impressive.

Bear: Of course. And with any luck, the lifting of the restrictions will help too. I read recently that Edinburgh's annual growth in retail spending (3.5%) is forecast to be higher than the average across all the other UK top cities (2.1%). Hopefully the Scots will get their wallets out!

Bull: Hmm! Anyway moving on…It won't come as a surprise to you that Edinburgh's industrial market is also in rude health. The fringe mid-box industrial market continues to see rental growth (5.6% pa). And, the Edinburgh residential market is going gangbusters too.

Bear: Really?

Bull: Absolutely. The city saw exceptionally strong house price growth of 13.5% in 2021, well ahead of the national average (9.8%). Furthermore, the burgeoning Build to Rent sector is blossoming too. On the back of all this, you can see why investors have continued to pay a premium to own assets in Edinburgh over the other UK cities, can't you?

Bear: Maybe. But to me the big question is whether they should continue to pay a premium? As things stand, I don't think so.

Bull: You're being anti-investment again, aren't you?

Bear: No. But let's be realistic for a moment. The noise relating to another referendum is only going to get louder, isn't it? Buying now (and especially paying a premium for it) just doesn't feel quite right. If there is another referendum, prime office yields could easily move out 25 or 50 bps. The risk is risk.

Bull: Rubbish! I just don't see it being a material threat to pricing in the near term. There will always be risk-averse investors like you, but there will also be investors who see the uncertainty as a real buying opportunity. We've been through it before, remember? The trends from 2013 and 2014 were clear.

Bear: So, are you telling me that Edinburgh is on your shopping list?

Bull: Well….

Bear: Well what?

Bull: Well, I'm not 100% convinced that right now is the perfect time to be buying in Edinburgh but that is more because I think there may be better value elsewhere. Yields for offices in Manchester (5.00%) and Leeds (5.25%), for example, make them attractive alternatives. And the occupational stories in these cities are equalling as compelling.

	Edinburgh	Glasgow	Manchester	Leeds
GVA % forecast for 2022	5.5%	5.7%	6.5%	6.0%
Unemployment Rate	4.2%	7.3%	8.2%	6.4%
Prime Office Rents (£psf)	£37.50	£34.50	£38.50	£34.00
Prime Office Yields	4.75%	5.00%	5.00%	5.25%
Office Vacancy	6.5%	10%	11.2%	7.9%
Prime Industrial Rents (£psf)	£8.50	£8.50	£8.00	£7.75
Housing Price Growth in 2021	13.5%	11.9%	8.1%	7.1%

Source: Avison Young, Oxford Economics

Bear: That's a fair point. They do have marginally softer yields, and they come with far less political risk. So why shouldn't investors get the heck out of Edinburgh, and Scotland now, while they can?

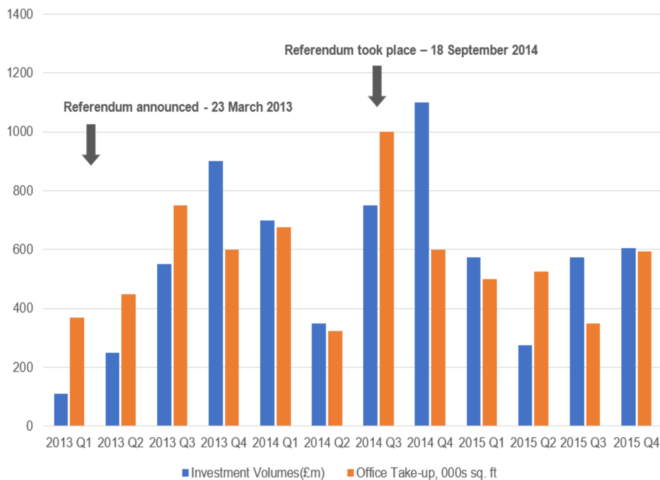
Bull: Are you bonkers? No way. Investors should stay put. Even if there is to be a second independence referendum, and that's a big IF, history suggests it probably won't have too large an initial impact anyway.

Bear: Why do you say that?

Bull: Well, if you look at the chart, you will see that investors and occupiers only hesitated briefly (one quarter) before the referendum in 2014. Moreover, the Scottish investment market didn't react at all when the referendum was announced in March 2013. It stayed stable all the way until Q2 2014, just prior to the referendum vote.

Will Edinburgh remain No.1?

Scottish Real Estate Investment and Office Take-Up 2013-2015



Source: CBRE

Bear: I had forgotten it was as clear as that.

Bull: As I said earlier, the trends were clear. The 'no' result triggered an instant recovery in both office take-up and all sector property investment, and many of the deals agreed beforehand were temporarily put on hold and then exchanged or completed in the last fortnight of September 2014. This bolstered the Q3 figures hugely. So, based on this, can you at least agree with me that an exit strategy now from Scotland would seem ever so hasty, if not rather naive?

Bear: I suppose so. But I still think that Edinburgh may struggle to stay at No.1 if the call for independence continues to pick up momentum.

Bull: As far as I'm concerned, they can shout as loud as they like given a referendum still needs approval by Westminster. And there's no way Boris will let that happen. Furthermore, none of the current favourites to be the next Prime Minister are likely to let a referendum happen either. Based on his past comments, I can't imagine Nicola would be at all keen if Jeremy Hunt was voted in!

Bull: Absolutely. Or Rishi for that matter. But whatever plays out, I can see there being a mighty effort from Westminster to prevent the Union being broken up.

Bear: Fair enough.

Bull: And that is why I remain confident that Edinburgh will remain St Bride's No.1 UK Key City in 2022, albeit with at least one asterisk, if not two!

Bear: Okay, we are agreed. Anyway, I must dash for my train. I'll let you know how I get on and I will email you those photos you wanted. As I'm doing my prep on Edinburgh and Scotland, perhaps you could make a start on next Sunday's topic. Apparently, Brother Bull is over from the USA. His perspective should be interesting.

Bull: Have a great time and let's catch-up next Sunday morning.

View on Scottish Independence and latest odds on becoming the next UK PM

Rishi Sunak

Odds to be the next PM - 5/4

"I'm really proud of the Union. I'm proud of what the UK Government does. We are one United Kingdom."

Liz Truss

Odds to be the next PM - 5/1

Ms Truss has done well to avoid this question... but watch this space.

Jeremy Hunt

Odds to be the next PM - 7/1

"I will support the union with every drop of blood in my veins."

Michael Gove

Odds to be the next PM - 16/1

"If it is the case that there is clearly a settled will in favour of a referendum, then one will occur."

Source: Paddy Power, 21 January 2022

ST BRIDE'S MANAGERS

Bull and Bear

A View From America

Bull & Bear's US Partner, Bison, rocks into The Tavern and shares with them a few home truths.

Bull: Here he comes, Big Brother Bison from the Big Apple.

Bear: OMG! What on earth is he wearing? Really? Who wears a cowboy hat nowadays? And, unless I am greatly mistaken, his boots are still absolutely caked with genuine American bull****.

Bison: Howdy Bull. Hey Bear. How you're doing? Long time, no see.

Bull: Great to see you Bison.

Bison: C'mon Bear … give your American buddy a hug and let me have a go with them there arrows. Who's got the bow then? It reminds me of them good ol' days out West!

Bear: Give us a break. You have only lived in the US for thirty years. You are as British as we are!

Bison: Shhh. Keep your voice down. I've got a reputation to protect.

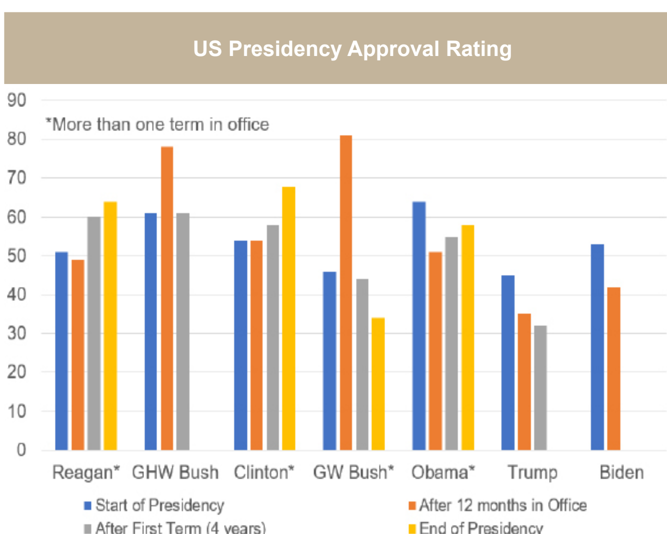
Bear: Stuff your reputation … if you want to join our entirely legal office meeting with drinks, you are going to have to play by the book. No photos, no drones, no recordings, no notes, no …

Bison: Okay! I've got the message.

Bull: Look. The only thing I really want to know is, who, in the CIA, is going to replace Felix Leiter after his demise in No Time to Die?

Bear: And the two things I want to know is, one … why exactly are you here? It wasn't just for a quick game of darts, was it? And two, who is going to replace Joe Biden in 2024?

Bison: Let's deal with the second question first. Joe Biden's approval rating has crashed from 53% to 41% over his first year in office. Of late, only Trump (39%) had fared worse at this stage.



Source: Gallup

Bear: Wow! How come George Dubya did so well in his first year?

Bison: He started a war!

Bear: Oh dear! I hope Uncle Joe hasn't seen these numbers. We don't want him going head-to-head with Mr Putin over Ukraine, just to get his approval ratings up!

Bison: The trouble is that he is finding it really tough getting his legislation passed. With the mid-terms looming, he is almost certainly going to face the ignominy of a lame-duck administration for the rest of his term. I am afraid he's already yesterday's news.

Bull: But he did get both his $1.9 trillion coronavirus relief package and his $1.2 trillion infrastructure deals through, didn't he? Plus he is nowhere near as scary as Mr Trump.

Bison: Okay, but much of his $1.75 trillion Build Back Better spending plan seems already doomed.

Bear: Just imagine what we could do with that sort of dosh, Bull!

Bull: Yes. We could start with the mother of all office parties … and definitely not like those unbelievably drab affairs they seem to be holding nowadays at Number 10. If you are going to party... PARTY!

Bison: And there, my dear British friends, is exactly your problem. And that is why I am here in the UK. I have come with a bulging wallet to buy the UK's best businesses. Whilst you Brits are quite good at setting up new companies, you are lousy at keeping them. Your businesses are too conservative. They lack capital. And they lack the nerve to grow.

Bear: That's a bit harsh.

Bison: I don't think so. Moreover, your banks are far too risk averse and just as soon as someone waves a big fat cheque in front of the shareholders, they throw in the towel and retire to the Cotswolds.

Bull: That's really harsh… but just out of curiosity, exactly how much money do you have in your bulging wallet?

Bison: My private equity dry-powder is about $2.3 trillion… which is up from $1.6 trillion only two years' ago.

Bull: Wow!

Bison: Yes. We are all having an absolute ball at your expense. For example, since the start of the pandemic, G4S (outsourcing), John Laing (infrastructure), Meggitt and Ultra Electronics (defence), Vectura (inhalers), Costa (cafés), Morrisons (supermarket) and Entain, which owns Coral and Ladbrokes (bookmakers), have all been snaffled up.

ST BRIDE'S MANAGERS

Bull and Bear

A View From America

Bison: Bullseye!!! Which reminds me… St Modwen were also sweet-talked into accepting a bid of £1.27 billion from Blackstone. But I guess that doesn't matter to you guys since logistics and residential development are hardly in fashion at present, are they?

Bull: Ha! Ha!

Bear: I was a shareholder in St Modwen, and as I recall, Blackstone paid a 25% premium.

Bison: Yes, but look how poorly your stock market has performed compared to ours. It makes everything here look so unbelievably cheap… to us.

FTSE 100 VS S&P 500 vs Nasdaq Composite

Source: Financial Times, 27 January 2022

Bull: Bear, you are such a dipstick. I told you not to vote in favour of the St Modwen takeover. And after the recent mass exodus from London to the country, you still can't afford to buy your dream cottage in Bourton-on-the-Water!

Bear: But we have a 'special relationship' with you guys.

Bison: Of course, you do. You sweat away at setting up terrific, innovative companies … and we come along and buy them off you on the cheap. You call it 'special'… we call it smash and grab!

Bison: And our so-called 'special relationship' has recently been highlighted in a charming piece of work by your Department of International Trade… no doubt to support the post-Brexit UK-US trade talks. Just look how we have been moving in on your key business sectors. We just can't get enough of your science-based firms.

US-owned businesses in the UK – 2019 numbers (latest)	
Number of US-owned businesses in the UK	32,646 (1% of UK total)
Number of UK workers working for US-owned companies	1.48 million (4.7% of UK total)
Estimated turnover of US-owned businesses in the UK	£672.3 billion (11.4% of UK total)
US-owned businesses based outside London and the South-East	60%
Estimated increase in GVA from US-owned businesses (2010 -2019)	£65.2 billion

Source: UK Department for International Trade, December 2021

Percentage of all UK business-sector turnover delivered by US-owned businesses		
	1997 %	2019 %
Scientific, Technical and IT services	5.3	17.6
Manufacturing	15.5	17.6
Financial Services	15.4	15.2
Wholesale and Retail Trade	6.3	10.0
Transportation and Warehousing	1.5	8.7
Energy, Extraction and Water	8.4	4.2
Arts, Entertainment and Leisure	1.8	3.1

Source: UK Department for International Trade, December 2021

Bear: Gordon Bennett!

Bison: And what these figures don't show is how we are also moving in on your premier soccer league.

Bull: That's Football League.

Bison: Okay. Maybe, at least for the moment. But it won't be too long before we get it renamed. After all, US investors already own a large slug of the Premier League - Arsenal, Burnley, Liverpool and Manchester United, plus 50% of Aston Villa. And we are now getting stuck into Formula 1 and rugby too.

Bull: If you are talking sport … why don't you buy a slice of our cricket then?

Bison: Are you nuts? After the way you lot played in Australia!

Bear: That's a shame. Where are you off to next?

A View From America

Bison: There are three special deals I am working on. I have my eye on the NHS, the BBC and a discrete food factory that is concocting a delightful chlorine-based sauce to go with your Sunday chicken roast.

Bull/Bear: (In unison). Get out of here!

Bison: Okay. I know the truth hurts, but here are six things I really think you guys should take seriously this year:

1) The UK will continue to be seen by dollar-denominated overseas investors as an attractive place to buy growth businesses, at relatively cheap prices and with little resistance.

2) Watch out for more company activist activity from the likes of Elliot and Trian. They are hard to shake off.

3) Think laterally. Sometimes acquiring asset-backed operating companies may be a better route into investment than just buying traditional direct assets.

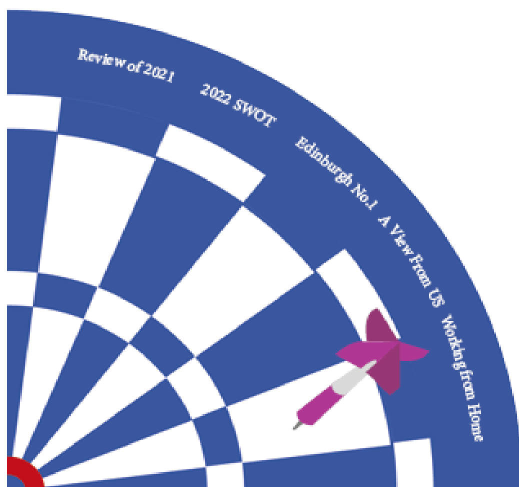
4) There will be strong US appetite for film studios, sports club brands and entertainment experiences. You should get into these sectors too.

5) Expect Amazon to reduce their dependency on third party delivery companies as they build up their own delivery capacity. So watch out for your weighting in logistics.

6) Leading US tech businesses, such as Microsoft, will increase their physical presence on the UK High Street. Experiential retail is heading in only one direction.

Above all, be bold; be imaginative.

Bear: Bull … Get him out of here. He's doing my head in. Thank goodness next week we can discuss something rather less confrontational … like working from home!



ST BRIDE'S MANAGERS

Bull and Bear

The Future of the Office

With hybrid working reportedly here to stay, Bull and Bear meet up via TEAMS to discuss the future of the office.

Bear: Can you hear me Bear? Bear? Bear? Can you hear me?

(Despite mouth movements from Bear, no response is heard).

Bull: You've still got your mute button on, you luddite! Turn it off.

Bear: Whoops. Sorry about that Bull. I'm still getting used to all this TEAMS stuff.

Bull: Still getting used to it? Seriously? It feels like it's all we've been doing for the last two years. Surely you've mastered it by now?

Bear: I thought I had. I managed to share a presentation last week, so I was convinced I'd cracked it! Anyway, I'm sorry I can't be with you at the Tavern this morning. As I said in my text, I've woken up with a sore throat and a tickly cough and I didn't want to take the risk of giving it to you.

Bull: You can't share a hangover, Bear! I saw how much Guinness you had watching the rugby. No wonder you didn't fancy the trip back here this morning. It's ironic though, that on the occasion we've been asked by St Bride's Managers to discuss the future of the office, you are dialling in from the breakfast table whilst I am sat here in the Tavern enjoying the hospitality on offer.

Bear: Well, that's how the world of work is going to be going forward. People working in the office, people working at home. In fact, according to a recent survey by Slack's Future Forum, almost 60% of knowledge-workers are already in hybrid working arrangements. The working from home genie is well and truly out of the bottle.

Bull: I think you're right. It's now about establishing what the right balance is. But I have certainly noticed a change since the Government's working from home guidance was withdrawn a couple of weeks ago.

Bear: Really? It still feels pretty quiet every time I've been up into town.

Bull: Public transport and the roads are busier, and shops have also experienced a modest increase in footfall. Apparently, London's transport network recorded an uptick in rush-hour Tube journeys made in the first full week after the WFH guidance was lifted. TfL logged 1.06 million Tube journeys before 10am which was a week-on-week increase of 6%.

Bear: I saw that. But it was still less than half the number of journeys recorded during 'normal times'.

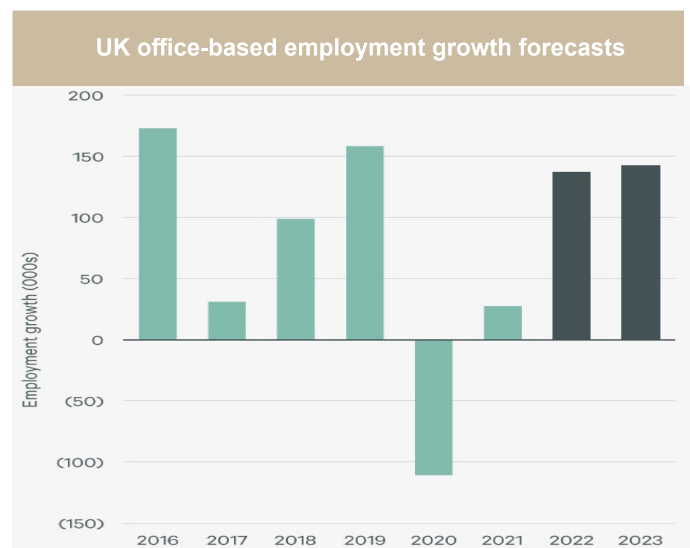
Bull: Fair enough, but it isn't really that surprising, is it? We all stopped commuting and got used to working in the study, the garage or at the kitchen table. For many of us, it brought a welcome break from the straitjacket of a 9-5 work schedule. And we had much more time to spend with the family. Getting out of this new rhythm is bound to take some time.

Bear: So, do you reckon office-based employment will ever return to pre-pandemic levels?

Bull: I'm convinced employees will want to return to the workplace.

Bear: You didn't answer my question!

Bull: I know. But CBRE answered it. They expect 140,000 new office-based jobs to be created and they forecast that this will translate into expansionary demand for space. Coupled with pent-up structural demand, they reckon that leasing volumes will return to normal levels this year.



Source: CBRE Research/ONS. Covers Big 6 office markets plus Central London and South East

Bear: That's a big call. I'm not so sure. A YouGov survey conducted last week on behalf of *The Times* found that 71% of the people surveyed preferred working from home and 58% believed they were more productive when they did.

Bull: Really?

Bear: Yup. And furthermore, only 9% of people had returned to their desks permanently since the Government's advice to work from home had been dropped, compared with 26% who have returned part-time. The poll also found 63% were working remotely and 39% said they will work from home for good. That's nearly two in five people saying that they will never return to the office. 40%!

Bull: Wow. Yet the Government has asked all civil servants to set a good example and return to the office. And so has Goldman Sachs. Citi wants staff back for at least three days a week and PwC expects staff to be either in the office or at a client's site for at least two or three days a week.

The Future of the Office

Bear: I can't get my head around all this. It is all so wishy washy. Should staff really be able to dictate when they come into the office? Surely, sooner or later employers will have to get off the fence and make a decision. And if they opt for a hybrid model, they had better expect some challenges!

Bull: How so?

Bear: For example, working out how much workspace they really need. Do they stipulate which days staff need to be in? Would staggering days have an adverse impact on cross-team collaboration and productivity? How should employers navigate inequalities and potential discriminations? A minefield springs to mind.

Bull: It sure does. But if employers do want to convince their existing employees to return and also attract new employees, they will have to be able to match the amenities on offer at home.

Bear: Beds and gardens?

Bull: Grow up, Bear.

Bear: Lighten up. I think we are both aligned on this point. The role of the office has fundamentally shifted to become more of a "social hub" or a "central campus" than just space filled with rows of desks and monitors.

Bull: Definitely. The "cram everyone in" approach simply no longer cuts it, does it? How things have changed in just a couple of years!

Bear: It's incredible.Take Google's Kings Cross HQ as an example. It will come with a 25-metre swimming pool, indoor basketball courts and massage rooms.

Bull: Blimey. I was aware of the growing trend towards more collaborative and social space standards, with breakout areas, private phone booths, upgraded kitchens, more natural light (at the expense of harsh strip lighting) and plenty of greenery. But swimming pools!!

Bear: I know, but, think about it. This will inevitably lead to higher occupancy costs per seat. Aren't you fearful for the office letting markets?

Bull: Not really. In fact, I reckon 2022 should see quite an improvement in activity up and down the country. I wouldn't be surprised if nationwide office take-up didn't hit its highest level since 2019 and be above the annual average.

Bear: Why do you say that? Won't businesses being looking to downsize with the growth of hybrid working?

Bull: Maybe, but I reckon that a wave of occupiers will emerge from the shadows of COVID with plans to exchange quantity for quality. Given the limited amount of Grade A stock available in most UK regional markets, this could easily drive-up rents for the best space.

Bear: Rental growth? Now that's not something I was expecting you to say this morning. Didn't I recently read that Colliers reckon an occupancy rate of 75% will be the norm for 2022? In my book, even this may be rather over-optimistic.

Bull: Maybe, but there is going to be pressure on development pipelines too, aggravated by supply problems and construction cost inflation.

Bear: You can't surely think that Grade B properties will see rental growth though? Demand is bound to be skewed towards prime offices, especially given that ESG considerations are gathering pace with occupiers.

Bull: Yes … and with that may arise opportunities for investors. Finding the best located Grade B assets and making them prime.

Bear: That feels like a brave call to me.

Bull: The investment stats suggest otherwise. For example, Central London office volumes reached a three year quarterly high of £4.1bn in Q4 2021. And the markets are bound to be boosted by further loosening of travel restrictions. In fact, CBRE expect investment volumes to increase by c.20% year-on-year. Moreover, according to Knight Frank's Annual London Report, the Central London office market is forecast to attract £60bn of overseas capital over the next five years.

Bear: If they are right, and they may well be, then all this sensationalism regarding the death of the office will be proven to be well wide of the mark. Well wide.

Bull: Thank you. I think we are agreed on that then.

Bear: So, if you were summarising what will happen in 2022, how would you describe it?

Bull: A year of trial and error as occupiers test out new workplace strategies, including hybrid working.

Bear: So, another year of uncertainty?

Bull: If you want to put it that way, but realisticly the debate about the future of the offices is unlikely to be settled in the next twelve months. Almost certainly though, hybrid working is here to stay, at least in some form anyway. And we know that ESG will increasingly take centre stage for many occupiers.

Bear: Overall, then … not too bad. I will keep my fingers crossed that you are right. Anyway, my headphones are starting to hurt my ears, so I'm going to log off and let you enjoy your Sunday. Have a good day and I will look forward to catching up again next weekend.

Bull: Will do. You too.

ST BRIDE'S MANAGERS

Bull and Bear

Asset Selection

On the back of some impressive returns for UK property in 2021, Bull and Bear are back in the St Bride's Tavern for a game of darts and a discussion on how to achieve out-performance again in 2022.

Bull: "ONE-HUNDRED AND EIGHTY!!!"

Bear: Not again, Bull. How many pints do I owe you now? Just look at the number of empties on our table already. Are you single-handedly trying to make up for the £5.7bn in lost UK beer sales last year?

Bull: The amber nectar improves my accuracy, dear Bear. I should have given some of this stuff to the GB curling teams. Our medal count would look much healthier!

Bear: Harsh.

Bull: But fair. Anyway, I've already got my real estate investment strategy for 2022 nailed down…and there is really very little we need to do.

Bear: You have? What's this secret strategy then? Please share, before you really start slurring your words.

Bull: Industrials, Bear. Big, lovely, shiny sheds.

Bear: That's it? Sheds? I know beer goggles make you rather blinkered, but that's rather a simplistic outlook.

Bull: Didn't you listen to the MSCI Quarterly Index results this week? The industrial sector delivered a staggering 12-month total return of 36.4% in 2021. And, in the last quarter alone, they delivered a total return of 12.4%. Those returns are off the charts. They blow all the other sectors out of the water. Where else would I want to put my money?

Bear: Here, have a glass of water Bull. You really are getting quite animated about this.

Bull: It's just plain common-sense, Bear. Industrial total returns for 2021 were more than double the All-Property total return average of 16.5%. We just need to get on board and ride the wave!

Bear: So long as it is the right wave. If you had been in shopping centres, which, you will recall, was the darling sector of the property market not so many years ago, you would have been in for a complete drubbing. The worst performer in the MSCI Quarterly index, suffered a -20.4% return for the year.

Bull: Yes, but the best performing fund was the Airport Industrial Property Unit Trust with returns of 42.6%. Which is why I am banking on the sector again this year.

Bear: If only it was that easy. I accept that industrials will continue to do well because of the mismatch between occupier demand and supply, but have you noticed how 10 year bond yields have spiked from 0.7% to 1.5% since the middle of December? With prime industrials yields now at 3.50%, it doesn't leave much wriggle room for yields to compress further.

Bull: Yeah, Yeah! But let's face it, these words are coming from the same person who said that bond yields would never go below 4.00% and then look what happened. In my judgment, I think you will find that as investors switch out of bonds, they will find the income return from industrials rather compelling, especially as rental growth is expected to outpace inflation.

Bear: Maybe, but you have to accept that not all industrial assets, or any other assets for that matter, are created equal. Asset selection (that means choosing the right properties to you) will always be key to long-term real estate performance.

Bull: I am not so sure, Bear. Remember what they used to call Claudio Ranieri? The Tinkerman. You don't want to miss the bigger picture. I am planning to take more of the Manchester City type approach and just buy all the best players – whatever the price tag. You could play Kevin De Bruyne at right back and he'd still score.

Bear: It's not tinkering, Bull. I'll admit that the portfolios that outperformed in 2021 had an above average allocation to the industrial sector. But don't forget that retail warehouses also delivered a really healthy return of 21.9% last year.

Bull: They're quasi-sheds too, Bear. Clue's in the name. Pork-scratching?

Bear: No thanks. But what strikes me most at present is not the headline figures themselves but the distribution of the total returns. For the moment, investors have really polarised their views. In my view the spread will be much narrower this year and that is why skilful asset selection will be so important.

ST BRIDE'S MANAGERS

Bull and Bear

Asset Selection

Bull: Everything gets so much more complicated when you get involved.

Bear: It's not difficult, Bull. It's about making sure you don't get caught with your proverbial trousers down.

Bull: Okay. I'm listening.

Bear: Take the industrial sector, for example. We are not talking about one homogenous sector, are we? But a range of property types and uses that serve an extremely diverse occupier base, from heavy industry to last-mile logistics. Remember, not every industrial unit is an oven-primed Amazon fulfilment centre!

Bull: Far from it Bear. A large percentage of the UK's industrial stock falls well short of modern occupier requirements altogether.

Bear: And that's where we can add value, Bull. It's about understanding the micro-location, the ever-evolving occupier requirements, the likely improvement, or development expenditure required to future-proof an asset, and how you cost and deliver those identified improvements. That's the key.

Bull: You don't need to lecture me on capital expenditure projects. It gives me a headache just thinking about the current level of build-cost inflation. The price of materials seems to be going up on a weekly basis.

Bear: I think you'll find it's the pints of Brewdog that are making your head feel sore! The point I am making is that whilst sector allocation will always be important, choosing the right assets is at least as important.

Bull: You mean do your pre-acquistion due diligence and make sure it's not in a flood zone?

Bear: No, Bull. That's not what I mean. Don't you remember our conversation about offices last week?

Bull: I remember that Google's new Kings Cross HQ is going to feature a 25-metre swimming pool. Now that's a potential flood hazard if ever there was one.

Bear: You are missing my point, old friend. We agreed that 2022 would be a year of "trial and error" for offices as occupiers test out new workplace strategies, including hybrid working. That means the sector as a whole is in a period of transition. And... that means there will be opportunities, but pitfalls too.

Bull: I am still not sure I get it, Bear.

Bear: The point, my dear Bull, is that we are already seeing a divergence between those offices that will survive and thrive, and those that will not. The expectations of occupiers have changed, there is a flight to quality that could leave sub-standard buildings stranded, and the concept of green premiums and brown discounts will become less theory and more full-blown reality.

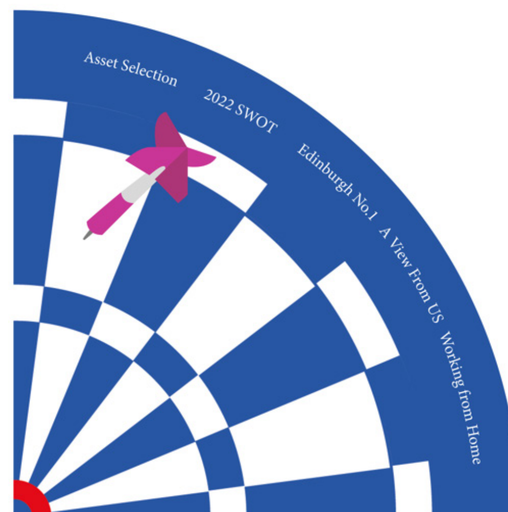
Bull: Can we dial down on the "theory", Bear. You know that's not my strong point.

Bear: All I am saying is that investment managers can't rest on their laurels in 2022 hoping further yield compression will drive returns. Assets in danger of falling into that "secondary category" will need to be fundamentally repositioned, repurposed or disposed of. Occupiers are becoming more demanding and more discerning, and, as investors, we need to do the same.

Bull: Ah. I get it now. And I certainly don't want to be stranded with any duffers. I guess I'd better review my portfolio in a bit more detail on Monday. And there I was thinking I could just pile all my savings into the industrial sector and jet off skiing for the winter.

Bear: I'd love to try and watch you ski right now! Come on old chap. Let's get you home to Mrs Bull. A nice cup of tea is what you need.

Bull: Thanks, Bear. Same time next week?



ST BRIDE'S MANAGERS

Bull and Bear

High Street Retail

Over their regular Sunday beverage, Bull tries to persuade Bear that the time has come to be investing back into the High Street. Unsurprisingly, Bear is being … well, rather more bearish!

Bull: Hey Bear, come over here. I don't want anyone overhearing. I think I may have found the best deal ever.

Bear: Here we go again!

Bull: It's a classic high street shop.

Bear: Are you completely nuts? Everyone knows that the high street is dead… like properly dead. Why don't you buy an industrial investment like everyone else?

Bull: Firstly, because my pocket money won't stretch that far and secondly, because I can get a REALLY juicy yield from high street shops at present. They are just perfect for a private investor like me. And, because capital values have crashed so far, many institutional investors can't be bothered with them anymore. And that means they probably wouldn't haggle too hard.

Bear: I'm off. This is sheer madness.

Bull: No, wait. C'mon Bear … bear with! Total returns are back in the black and, according to MSCI, retail delivered 10.4% last year and it was the second highest performing sector behind industrials!

Bear: That is because it included retail warehouses (21.9%) and supermarkets (15.7%), you dim-wit.

Bull: Yes, I know. But even so, if you measured standard retail against what investors would have got if they had left their money in the bank, it delivered a perfectly respectable 5.6% (South-East) and 8.0% (Regions).

Bear: I can't deny that, nor can I deny that high street returns were better than 2020, but still … you only have to walk down any shopping street and all you see is one letting board after another. According to the British Retail Consortium, high street vacancy is a whacking 14.4%. That is one in seven. And in the North-East it is almost one in five!

Bull: Maybe so, but did you see the latest ONS figures released on Friday? Monthly retail sales increased by 1.9% from December to January (the largest increase since April 2021), the easing of COVID restrictions have people back in the shops!

Bear: You are missing the point. That won't last. The cost of living has hit a thirty-year high, with CPI at 5.5% and predicted to be heading towards 7%. That is going to hit people's pockets… and hard. It is basic economics.

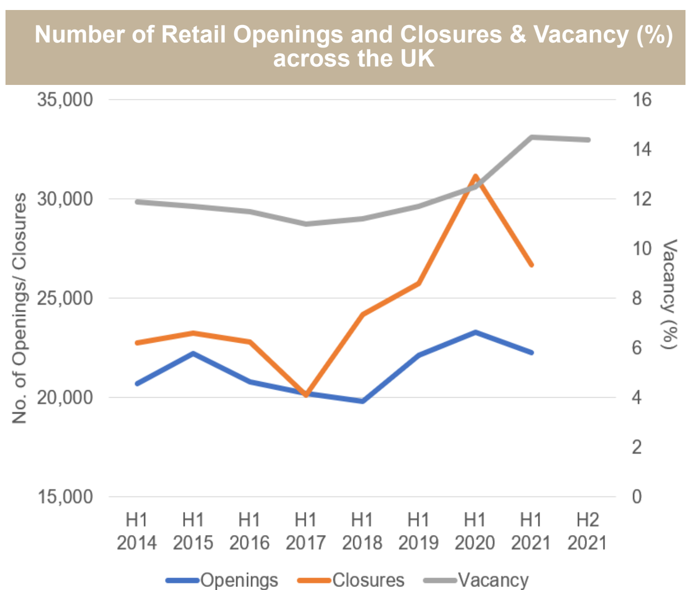
Bull: Please … let's not get into economics again! It's just a deal! And my nose is telling me that it smells right!

Bear: Okay, here is what I suggest we should do. Let's take it in turns coming up with the pros and cons for the sector and see whose argument runs out first.

Bull: Okay.

Bear: I'll start. With the current level of retail vacancy, it will be years before there is any positive rental growth.

Bull: Fair enough. But look at this graph. It is clear that the spread between closures (orange) and openings (blue) is starting to tighten again, and the vacancy rate (grey) is plateauing.



Source: Local Data Company

Bear: I must confess that I hadn't spotted those trends before, but one swallow doesn't make a summer.

Bull: No, but it is a good start. And we now know that Primark, Kurt Geiger and B&M are all looking for additional units.

Bear: Yes, but they are the exception. Most of the demand is from less well established, non-investment-grade tenants who will only commit to three-to-five-year leases, and preferably with turnover rents.

Bull: Maybe, but is that a problem so long as they cough up? And whilst we are on that topic, it seems that retailers are starting to pay their rents on time again. According to REMIT, the 35-day rent collection figure for Q4 2021 was up to 83.2%. That is its highest level for twenty-two months.

Bear: Fair do's but who wants to take the risk of having a vacant shop unit on their hands? We know that every retailer in the land is up in arms about the inequality of business rates. And I can tell from bitter experience, that from an investor's standpoint, vacant rates have a catastrophic impact on returns.

ST BRIDE'S MANAGERS

Bull and Bear

High Street Retail

Bull: Rishi isn't a fool. I expect he will sprinkle some of that magic stardust and whoosh … it will all be sorted. The issue is obviously on his radar as, in his last budget, he froze business rates in England until at least April 2023.

Bear: But successive Governments have promised to sort out the rating system for years and none of them has a come up with a practical solution or alternative. So, if I were you … I wouldn't hold my breath on that one.

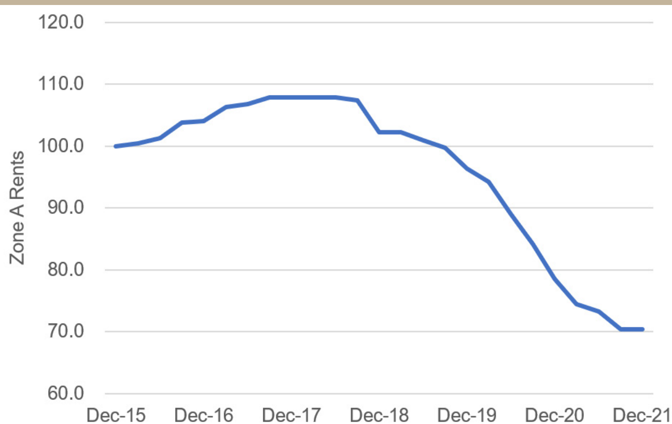
Bull: Okay, but at least the Government has relaxed the planning rules so that the re-purposing of shops can go ahead without a change of use consent. And, on top of that, this may be the perfect time to recapture the upper parts for residential.

Bear: Point taken, but how about this one? So long as retailers have to ride out their leases with upward only rent reviews, investments are going to be massively overrented.

Bull: Who cares, provided, of course, the tenant doesn't default. And with the slippage in rental values now bottoming out, it should give you a decent crack at negotiating a new lease extension for a realistic reduction in rent. C'mon Bear, where is your spirit of adventure?

Bear: Slippage in rent? More like a torrent. Just look at this graph! It's an absolute horror show.

UK High Street Rental Index (December 2015 = 100)



Source: Cushman & Wakefield

Bull: But don't you see … for new investors that is great. If the rent is more affordable, their tenant is more likely to survive. And, at the same time, it should encourage more retailers to join the party.

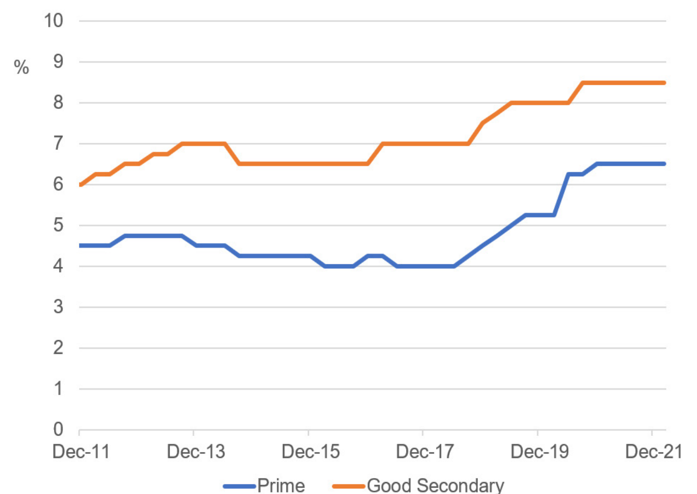
Bear: I don't know Bull. It all seems far too hasty to me. We aren't even out of the pandemic yet. Who knows what is going to happen?

Bull: C'mon Bear. Remember, if you snooze, you lose!

Bear: What did you say income returns were?

Bull: That's the spirit! According to Savills, prime high street yields are now at 6.50%, having tightened from 6.75% three months ago. Investor demand is picking up again and according to my agent some sales are even going to best bids. Moreover, apparently, a deal in Windsor just before Christmas attracted a price reflecting an initial yield of sub-6%.

UK High Street Retail Investment Yields



Source: CBRE

Bear: But yields need to be that high to account for the lack of future rental growth.

Bull: Not necessarily. As we agreed last week, investors have limited choices at present. In my book, once the dust has settled, I can easily see yields hardening back towards 5% … and that would represent a capital gain of 30%. Thank you very much. Happy days!

Bear: I can see your argument and I won't stand in the way of you buying. But, for goodness' sake, please be careful. Stick to the best high streets and please don't compromise on the quality of the asset or the income stream.

Bull: Yes, but are you in?

Bear: No, not yet. I am going to wait until the summer and reassess the situation then. If I lose some of the initial super-profit, so be it. I would rather be safe than sorry.

Bull: Fair enough. Let's catch up next week. And remember … don't tell anyone my secret!

ST BRIDE'S MANAGERS

Bull and Bear

Interest Rates and Yields

After a gruelling week assessing the fall-out of the Russian banks on the banking system, Andrew Bailey, the Governor of the Bank of England, just wants to be left alone to read his Sunday newspapers, over a quiet pint.

Bear: What's this? I asked for a pint.

Bull: It's a Baileys. I bought it for the Governor of the Bank of England over there, by way of a friendly welcome to the Tavern.

Bear: And?

Bull: He told me to take a hike. So, you have got his Baileys instead. All I wanted was a bit of forward guidance on interest rates.

Bear: Well, now you know. He couldn't have been clearer, could he? They are going to be hiked!

Bull: Yes, but when, by how much and what will it mean for house prices and property yields?

Bear: I can have a decent crack at answering that. On the one hand you have to weigh up the negative implications of rising inflation and QT, and on the other hand, you have to acknowledge the current strength of homeowner and investor demand.

Bull: Please be gentle with me, Bear. Today is 27 February and everyone knows that it is 'National No Brainer Day'. We are all meant to be relaxing our brains and stopping ourselves from over-analysing things. And, as a sidenote, who exactly is Cutie?

Bear: Not Cutie, you half-wit … QT. Quantitative Tightening, which is the reverse of Quantitative Easing. Okay, let me take you through this step by step.

Bull: And in English, please.

Bear: First off then … inflation. The annual rate of CPI rose in January to 5.5%, its highest level since March 1992. That is way, way over the Bank of England's official target of 2%. Moreover, the MPC expects it to peak at more than 7% in April when Ofgem increases its default tariff price cap. Not surprisingly therefore, the Bank is under significant pressure to raise their Base Rate.

Bull: If inflation really is going to be that high then, I am heading straight into St Bride's office tomorrow to demand a pay rise.

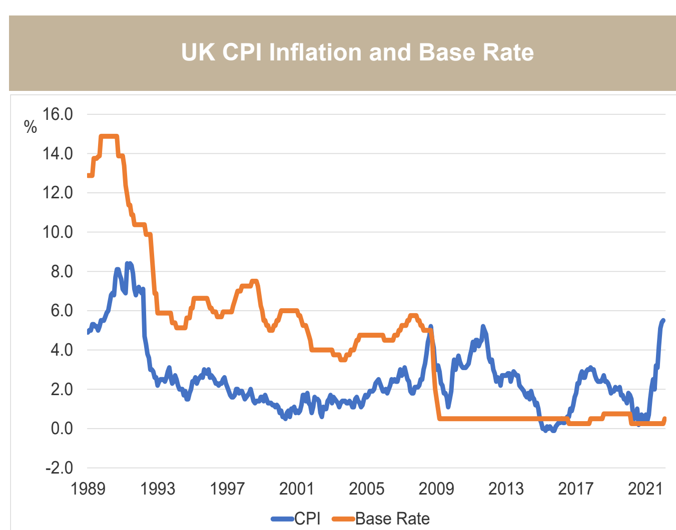
Bear: That's exactly what Mr Bailey doesn't want you to do. He wants to avoid an upward wage spiral … which we know from the 1970s can easily develop into an economic death-spiral.

Bull: That's easy for him to say when his total package last year was £575,000!!

Bear: Enough of that, please. Anyway, this is what I think. The Base Rate will be increased from 0.5% to 0.75% on 17 March and by a further 0.25% in May. It will then stand at 1% when I reckon the Bank of England will pause for breath. Many commentators believe that there will be a further rate hike in August, but I reckon that the 1.25% increase in the National Insurance Contribution in April will be enough to do the trick.

Bull: That doesn't sound too disastrous.

Bear: No. But once we start to climb out of this exceptional post-GFC/Brexit/Covid era, and the economy starts growing again unaided by QE, it is easy to envisage the Base Rate climbing to at least 2% again … but not this year, and probably not next year either.



Source: ONS/Bank of England

Bull: Phew! We should be okay then.

Bear: Yes, not least given that the largest contributors to inflation in January were liquid fuels (+47%), gas (+28.3%) and electricity (+19.2%), all of which are the result of global, rather than domestic issues. And, with any luck, these sharp rises will wash through the system over the coming twelve to eighteen months.

Bull: Okay. What does all this mean for mortgage rates and house prices?

Bear: First instincts suggest that mortgage rates should follow in tandem with the Base Rate. But it doesn't usually work like that.

Bull: How so?

Bear: Because the mortgage market has already priced in some of the expected hike. Six months ago, mortgage rates were c.1.5%. They are now nearer 1.8%. So, if the Base Rate goes up by 50 bp, as I anticipate, then I predict mortgage rates will only go up by 30 bp.

Bull: I suspect we could live with that.

Interest Rates and Yields

Bear: Yes but we need to be careful. The banks have already toughened up their lending criteria. For instance, last summer, the 'standard' two-year, 90% fixed mortgage was based off 5 x times gross salary. It is now more like 4.6 to 4.8 x times.

Bull: What will higher mortgage costs mean for house prices, then? Surely there is still plenty of pent-up demand out there?

Bear: There certainly is. It is still very much a sellers' market.

Bull: It's incredible, isn't it? Especially after the huge increases in house prices last year. According to the ONS the year-on-year increase to December of the average house was 10.8%. Do you reckon we will see the same sort of increase in 2022?

Bear: I am afraid not. Remember, buyers in the early part of 2021 benefited significantly from the Government's SDLT holiday and, at the same time, there was a massive race for space going on as people tried to sort out their domestic requirements to cope with WFH.

Bull: What do you expect will happen to house prices in 2022 then?

Bear: I have seen a range of different forecasts between +1% and +5%, and recognising the in-built momentum, I am going to go straight down the middle at +3%.

Bull: That sounds like a bit of a cop out to me. So, what about residential rents?

Bear: According to the Zoopla Rental Index, private residential rents across the UK rose by 7.4% over the twelve months to the end of November. And there is much more tenant demand than landlord instructions. So, I expect 2022 will be another good year for the sector. Savills reckon that rents could grow by 5.5% UK-wide and 6.5% in London.

Bull: That is rather lower than I was expecting. For instance, in Doncaster, where St Bride's Yorkshire-based Residential Partnership has been developing homes to rent, rental values have risen by 13.4% over the past twelve months.

Bear: That is a blatant and wholly unacceptable marketing plug and completely out of order.

Bull: Okay. Okay. Keep your shirt on.

Bear: I will forgive you if you get me another Baileys.

Bull: That's the spirit. You will be helping to keep my family's dairy business going. Did you know that it takes 40,000 cows on 1,500 farms to produce the cream needed to make the 82 million bottles of Baileys Irish Cream that are sold each year?

Bear: Crikey! On the basis that every cow produces between 250 and 500 litres of methane per day, that is a great deal of flatulence polluting our fresh countryside air! And it also explains the rather unpleasant odour that constantly follows you around!

Bull: That's unwarranted.

Bear: C'mon … let's get back to the job in hand. My next point relates to Quantitative Tightening and its impact on gilt yields.

Bull: Alright … but please keep it simple.

Bear: The Bank of England has been a huge buyer of gilts and corporate bonds since the GFC, and they have now indicated that they want to start selling some of it off. In all, they have bought a whopping £895 billion of the stuff. Firstly, they will stop reinvesting the bonds when they reach maturity, and secondly, they will off-load the £20 billion or so they hold in corporate debt. However they won't do this supposedly until interest rates have risen to 1%.

Bull: Which you think will be in May? That's not that far away, is it?

Bear: Exactly.

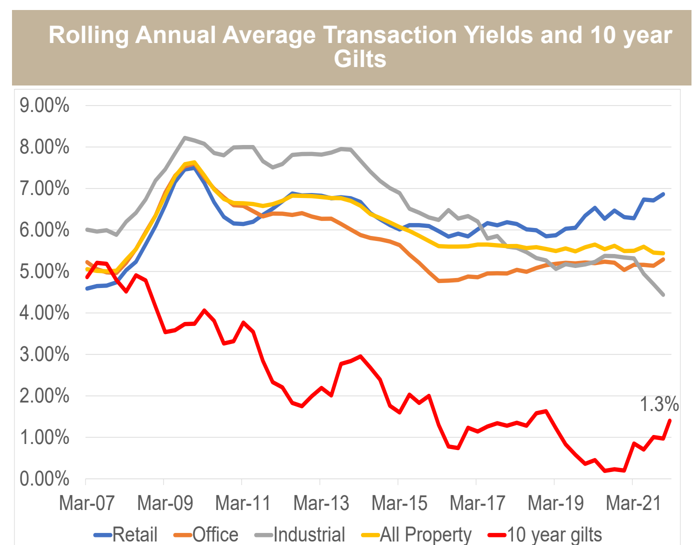
Bull: Where are bond yields now?

Bear: 10-year bonds were 0.7% just before Christmas but rose to about 1.60% in January, before slipping back to 1.3% now. My concern, especially for long-dated bonds, is that investors haven't yet fully taken QT into account in their pricing. 10-year bond yields, which is the benchmark duration we all use for property, could easily rise to 2.00% this year.

Bull: But the rise since Christmas hasn't really had a negative impact on property yields, has it?

Bear: No. In fact, it seems that some of the escapees from the falling bond market have been rather attracted to the comparatively high yields available from property. This is already leading to further compression of yields in some of the property sub-sectors. However, in my rather bearish judgement, I cannot help feeling that QT will ultimately force bond yields up and squeeze out much of the current attractive spread between gilts and property.

Rolling Annual Average Transaction Yields and 10 year Gilts



Source: LSH, Experian

Interest Rates and Yields

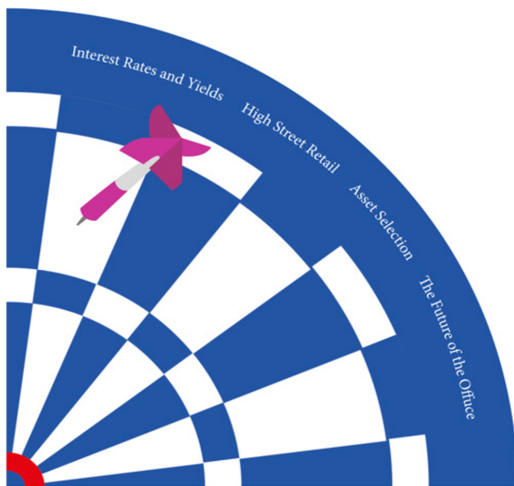
Bull: But if you look at this graph, the current spread between gilts and retail property yields looks phenomenal... especially retail. I know we spoke about investing in the High Street last week, but surely this just reinforces my case for a pre-emptive, contra-cyclical strike?

Bear: And, as I said last week, there are still far too many uncertainties with the economy, interest rates and geo-political challenges to do anything other than be cautious.

Bull: Thanks Bear. That has been very helpful. I will get your Baileys now.

Bear: Thanks.

Bull: Splendid. Whilst I am up there, I'll see if the Governor is in a better mood. You never know, he may be interested in our opinions!



Responsible Investment

Under the shadow of the ongoing crisis in Ukraine and the sanctions imposed on Russia, Bull and Bear discuss the expected growth of Responsible and Impact Investment.

Bear: Good morning, Bull. What a dreadful week it has been.

Bull: 'Dreadful' doesn't feel strong enough to describe what is happening in Ukraine.

Bear: Nope. And sadly, it's difficult to see how, or when, the conflict will end.

Bull: I know the team at St Bride's usually frown when we discuss politics, but what is happening in Ukraine is not only a humanitarian and geo-political crisis for the region, but a global issue that's going to impact all of us. The sanctions and the announcements by global firms that they are stepping back from Russia, have really brought the importance of Responsible Investment back to the fore.

Bear: Absolutely they have. It's been heartening to see the likes of Apple, Jaguar Land Rover, H&M and Burberry announce that they are pausing their activities in Russia. And BP, Shell, ExxonMobil and Equinor have also cut their Russian investments.

Bull: Shell's decision may cost them £2.2bn for exiting their ventures with Gazprom. But they need to, and be seen to, do the right thing. I was also interested to read that British Land have told Gazprom to leave Regent's Place (London) where they occupy around 90,000 sq. ft.

Bear: Investor sentiment has, understandably, also been hit by the crisis. According to the latest Fund Flow Index from Calastone, equity funds saw a surge of outflows following Russia's invasion, leaving February as the second-worst month for equity funds since July 2020. Supposedly, investors pulled out a net £604m in the final three trading days of February alone!

Bull: Blimey!

Bear: Property funds weren't immune either, recording net outflows of £148m in February, the worst reading since June last year. That doesn't bode too well, does it?

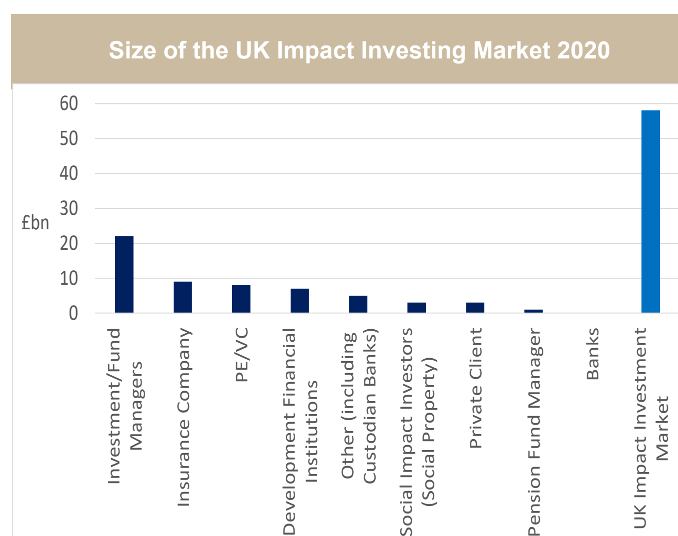
Bull: It's probably too early to tell. However, I was pleased to see that ESG funds, across the different sectors, continue to enjoy inflows, with investors adding a net £641m in February alone.

Bear: It's just the continuation of a trend. A phenomenon. Flows into Responsible Investment funds in 2021 rose by almost 37% from 2020 levels.

Bull: From what I'm hearing, most investors now want Sustainable Investment options. There is a huge opportunity for funds which will deliver on people's values, enabling investment which supports society, the environment and still meet investors' return targets.

Bear: That's why the UK Social Impact sector has seen investment grow nearly eight-fold from £833m in 2011 to £6.4bn in 2020. According to Big Society Capital, there has been consistent annual growth, with a particular acceleration between 2019-2020 (up 26%).

Bull: And according to the Impact Investing Institute, the UK Impact Investing market totalled £58bn in 2020, with nearly 40% in the hands of Investment/Fund Managers. Furthermore, funds allocated to impact are expected to exceed £100 billion over the next five years. And that excludes 'impact-aligned' capital, which are investments that generate positive social or environmental benefits, but are not made intentionally, nor measured.



Source: EY-Parthenon Analysis, BSC, Investment Association

Bear: These numbers are staggering.

Bull: Especially given that Impact Investing still only accounts for less than 1% of total assets under management in the UK. The growth potential is enormous.

Bear: Can you remind me of the definition of Impact Investing? It's not ESG, is it?

Bull: No. Impact Investing goes beyond ESG. The Global Impacting Investing Network states that it is proactively take action to improve situations, do good for society and the environment. They define it as 'investment made with the intention to generate positive, measurable social and environmental impact alongside a financial return'.

Bear: So, am I correct in thinking that it covers investments such as housing, local economic regeneration, the creation of employment, the improvement in carbon efficiency and sustainability?

Bull: Spot on, Bear. Property is a natural home for Impact Investing because of its direct nature and the ownership of building and place, which gives investors active control of the ongoing management of their assets.

Responsible Investment

Bear: Especially when the real estate industry accounts for 40% of CO2 emissions globally. Our industry will be pivotal in the transition to the low carbon economy. For example, did you know that an average ground-up development has a carbon footprint equivalent to fifty years of operation?

Bull: I didn't know that. And whilst the property sector has been developing its green credentials, there is still a long way to go, especially now that the UK is legally bound to become a net-zero emitter of greenhouse gases by 2050.

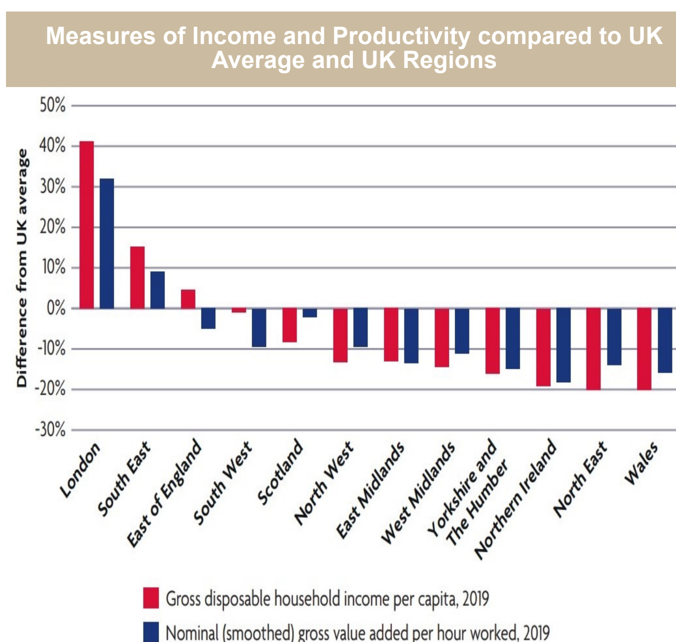
Bear: That's why regulation has been tightened. The new Heat & Building Strategy, UK Green Taxonomy and Sustainability Disclosure Requirements will be strategic drivers of change.

Bull: Evidencing the 'greenness' of buildings is also likely to be a key theme going forward. Property valuations will increasingly reflect the effect of sustainable building features on rents and prices. Collection of sustainability data will only increase too.

Bear: More work for the property managers then! Whilst this all sounds encouraging, I am also pleased that there has been a shift in focus towards the social side of Responsible Investing.

Bull: There sure has. For example, the mental health toll from COVID, the Black Lives Matters protests, the findings of the Grenfell Tower Inquiry have all drawn attention to the importance of robust social principals and standards. Human rights, health and safety, diversity and inclusion are now key considerations for investors.

Bear: The COVID pandemic has also widened the gap between the 'haves' and the 'have nots'. The UK is ranked one of the worst in Europe when it comes to income inequality. Look at this graph. The difference between London and the rest of the UK is huge.



Source: ONS, Department for Levelling Up

Bull: Hence the Government's levelling-up agenda and the publication of their White Paper in early February.

Bear: Have you read it?

Bull: Of course. All 332 pages. It certainly contains some thorough analysis, some clear aims and policy ideas.

Bear: Maybe. But I reckon that too many of the goals are simply unachievable in the time required. They are living in cloud cuckoo land if they think we can deliver on all twelve missions by 2030. Extraordinarily ambitious, especially given the current shortage of available funding.

Bull: Which is exactly why property owners should play a more prominent role in contributing to Social Inclusion. They should be looking to invest in under-served areas and focus on buildings that meet genuine community needs and will have a sustainable future.

Bear: But that's so much easier said than done. Impact Investing is not philanthropy. Take the Local Government Pensions Schemes, for example. They have clear fiduciary responsibilities. An empty property in Sheffield or Cardiff may look like an opportunity to generate social impact. But first and foremost, their investments must perform. The pension funds won't, and can't, accept a trade-off between creating social and environmental benefits and their requirement for financial return.

Bull: They don't need to. Impact Investing can deliver market returns. Just ask St Bride's. They have been providing loans to local residential developers to build homes in locations across South Yorkshire where new housing is desperately needed. They will be delivering long-term sustainable and resilient returns for their pension fund clients and, at the same time, generating a positive impact on the local communities at large.

Bear: What's their secret then?

Bull: We aren't paid enough to take the risk of disclosing that! But if you ask them, I suspect they would say that building strong working relationships, having excellent local knowledge and sector expertise are all key. And as a result, performance can be unlocked in areas that arguably need it the most. Furthermore, they certainly don't believe investment returns need to be sacrificed in the pursuit of Impact Investment.

Bear: Well, that's cheered me up.

Bull: And me. It certainly sounds like there is a model out there that helps support a healthier society, the environment, local economies and, at the same time, delivers market-level investment returns.

Bear: Well, on that uplifting note, shall we call it a day? Hopefully next week will bring some positive news from Ukraine.

Bull: I'm keeping everything crossed. In the meantime, our thoughts, of course, remain with the people of Ukraine.

Bear: Very much so. Have a good Sunday.

The impact of the Ukraine crisis

As global trade disruption raises the prospect of spiralling inflation, Bull and Bear consider the impacts of the ongoing Ukraine crisis on the UK property market.

Bear: What a couple of weeks, Bull. Our cosy existence seems to have been flipped on its head. I've just finished reading today's papers and the stories coming out of the Ukraine conflict are truly harrowing.

Bull: They are indeed, Bear. Our hearts go out to all those affected. The sheer number of refugees fleeing the war is difficult to comprehend. The UNHCR estimate that over 2.3 million people have already fled the conflict. And this may only be the beginning.

Bear: It does feel like the world is facing another Black Swan event. You'll recall that when we set out our "Investment Case for 2022" in early January, we listed the Ukraine situation as one of the key risks to geo-political stability.

Bull: We did. The threat was real. But neither of us imagined that just 6 weeks later Vladimir Putin would have taken the unthinkable step of launching an all-out military invasion.

Bear: I know. And there will be implications for everyone. Not just the poor Ukrainians. We won't be immune to the economic shockwaves, you know. So, do we need to revisit our assumptions for 2022?

Bull: What we need to do is work through this rationally. Putting aside the human element, if it remains a regional conflict (as we all hope it will) then the impact on the UK economy may not be as severe as some of the commentators in the media suggest.

Bear: Isn't that just reflecting an island mentality, Bull? Imposing sanctions and cutting business ties with Russia has implications. The world could be facing a commodity crisis. We've just ejected the world's only full-spectrum commodity superpower from the international and financial trading system.

Bull: True. And I am not denying that there will be consequences. I had to fill up my car on the way here and it cost me over £1.60 per litre.

Bear: That's just the tip of the iceberg, Bull. On Tuesday, oil prices surged to $130 per barrel, almost twice what they were in December. And the short-term price of gas reached more than $600 a barrel. We are talking about a significant energy price shock here.

Bull. We are. But we don't have the same level of exposure to the Russian economy as some of our European counterparts. Russia only accounts for 4% of Britain's gas supply and 1.3% of the UK's goods trade.

Bear: Even if the UK has few direct economic links with Russia, we still buy energy and commodities in international markets. And prices are soaring. Wheat, vegetable oil, fertilisers…. the whole production chain for food is going to come under pressure.

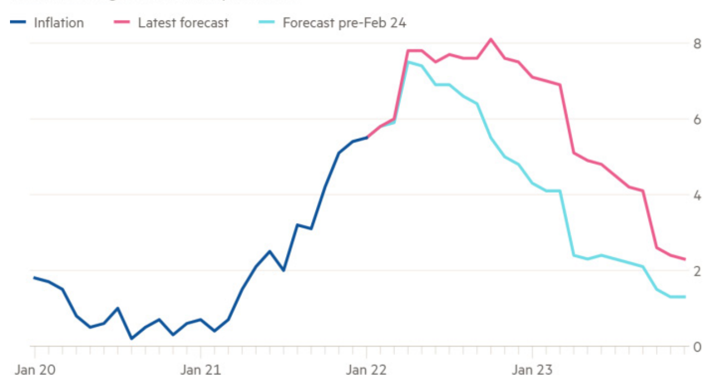
Bull: I accept that we will inevitably see a spike in energy and food prices, but we need to assess the impact of the fall-out against the wider economic backdrop. There is still impetus in the global economy and the UK economy has bounced back strongly from the COVID-19 pandemic.

Bear: I'd almost forgotten about the "C" word. It feels to me like we've stepped out of one crisis and straight into another.

Bull: We have. Which is exactly why we need to provide a balanced analysis here. Remember, we listed COVID-19 (and its "variants of concern") as the key threat in January. Thankfully, the Omicron wave peaked earlier than expected. The COVID threat has now receded, and the economy has rebounded as a result. GDP grew by a healthy 0.8% in January.

Bear: But you are still ignoring the fact that the UK is now facing a potential cost of living crisis. According to the Resolution Foundation, annual household incomes may fall by 4% in real terms over the next 12 months. UK inflation is already running at 5.5% pa. And the Ukraine situation is only going to make things worse.

UK inflation Forecast: Prior to the Russian invasion, the Bank of England forecast inflation would peak at 7% in April. The inflation peak could now be closer to 9% if energy prices continue to surge.



Source: KPMG

Bull: I agree. We can certainly expect the current inflation spike to be more protracted, but this is a global issue, not one that is confined to the UK. Just look across the pond.

Bear: I have. US inflation hit a 40 year high of 7.9% last week. That's the fastest annual increase since 1982! And, in Europe, our friends at the ECB have scaled back their bond buying stimulus programme in response to inflationary pressures. Some economists are even talking about the prospect of stagflation.

ST BRIDE'S MANAGERS

Bull and Bear

The impact of the Ukraine crisis

Bull: Well, I certainly don't envy those central bankers responsible for setting interest rates. They are walking a tightrope. But what we need to do is look at the longer-term position. The ECB is forecasting that Eurozone inflation will fade to 2.1% next year and 1.9% in 2024. Things will settle down as global supply chains adapt and Europe pivots away from any dependence on Russian imports.

Bear: That sounds reassuring, but I don't see anything settling down in the main equity markets. They've experienced huge volatility in recent weeks. The FTSE 100 is down more than 7% over the last month. Aren't investors simply going to turn to bonds or gold? The price of gold hit an 18 month high last week at over $2,000 per ounce.

Bull: I agree that normally in a conflict situation you'd expect a flight to safety. But that's not what's happening here. Remember inflation is bad for bonds. Real returns are eroded.

Bear: So you're expecting bond yields to rise?

Bull: Not necessarily. I am expecting a shift away from fixed income securities into inflation-linked securities or real assets. Perversely, the real estate market may be one of the beneficiaries of all this uncertainty.

Bear: Okay. Let's focus on the direct impacts on the UK property market then. The St Bride's team want to know what's going to happen on the ground. I read that this crackdown on Russian money entering the UK could have a big impact on the investment market. And I don't just mean the forced sale of Roman Abramovich's luxury properties in Chelsea and Kensington.

Bull: You always were susceptible to an eye-catching headline, Bear. I have no doubt that wealthy Russians will be heading elsewhere to set up business and buy property - the UAE being an obvious beneficiary - but investment inflows from Russia are relatively small beer in the scale of the market.

Bear: Point taken. I accept we need to look beyond the headlines. Can you tell me then what the impact of the crisis has been so far on UK real estate investment?

Bull: The simple answer, Bear, is very little. I joined CBRE's monthly index bulletin this week and the All-Property total return for February was 1.6%, up from the 1.1% total return recorded in January. Capital value growth was positive across all sectors, with month-on-month capital growth in the industrial sector running at 2.4%.

Bear: Those figures are encouraging. But isn't there a danger they are backward looking? Those returns were generated before anyone realised the scale of the invasion fall-out.

Bull: Which is why I thought it would be sensible to share CBRE's UK Property Investment Yields for March. Those retail warehouse yields in red have hardened (not softened) and all other core yields have remained the same. And they still look jolly attractive compared to 1.49% for UK 10 year gilts.

UK Property Investment yields (March 2022)

High Street Shops		Offices	
Prime	6.50%	West End	3.25%
Good Secondary	8.50%	City	3.75%
Secondary	12.00%	M25/South East	5.50%
		Regional Cities	4.75%
		Secondary	10.00%
Retail Warehouses		**Industrial**	
Park - Open A	5.25%	Prime Distribution	3.50%
Park - Prime	5.25%	Prime Estate (GL)	3.00%
Solus - Prime	5.00%	Prime Estate (ex GL)	3.50%
Park - Secondary	7.25%	Secondary Estate	5.50%
Shopping Centres		**Supermarkets**	
Prime	7.75%	Prime RPI	3.50%
Good Secondary	12.00%		
Secondary	16.00%		

Source: CBRE

Bear: I thought you'd say that! There certainly aren't any signs here that the war is having an impact. Just a huge divergence in sector pricing still.

Bull: Exactly. Whilst everyone is keeping a close eye on the situation in Ukraine, the prospects for all property sectors still seem to remain positive. And if we are talking about prime assets, the greatest challenge most investors are facing right now is the intense competition from other would-be buyers for stock.

Bear: So what do we conclude from all this? Are we saying its business as usual in the UK commercial property market?

Bull: I wouldn't go quite that far, Bear. The downside threats to the wider economy have been exacerbated by the conflict, with the potential to slow UK economic growth if there is a sustained dislocation of supply chains. But the fundamentals that attract investors to property remain, even in a more uncertain economic environment.

Bear: You mean property's low volatility compared to equities, high relative income return, and its ability, in some cases, to hedge against inflation, especially when rents are index-linked?

Bull: Precisely, Bear. I'd expect investors to actively seek out inflation protection within leases. We'll need to monitor things closely, but I am not anticipating much change to investment strategies or allocations to real estate in the UK or the wider European market.

Bear: I suppose in the face of uncertainty there is something reassuring about bricks & mortar. Or should I say a steel frame and some cladding! Long may that continue.

Bull: Absolutely. It's a cliché, but I do think it is a case of 'Keep calm and carry on'.

ST BRIDE'S MANAGERS

Bull and Bear

Secondary Industrials

Over their regular Sunday beverage, Bull tries to persuade Bear that it's not too late to be investing into the industrial market, via secondary multi-let estates.

Bull: You'll never guess what?

Bear: Good morning to you too, Bull. What's so important?

Bull: Well, ever since I bought that high street shop last month, I've been on the prowl for another bargain. And I think I might just have just found it.

Bear: I'm intrigued. What have you unearthed?

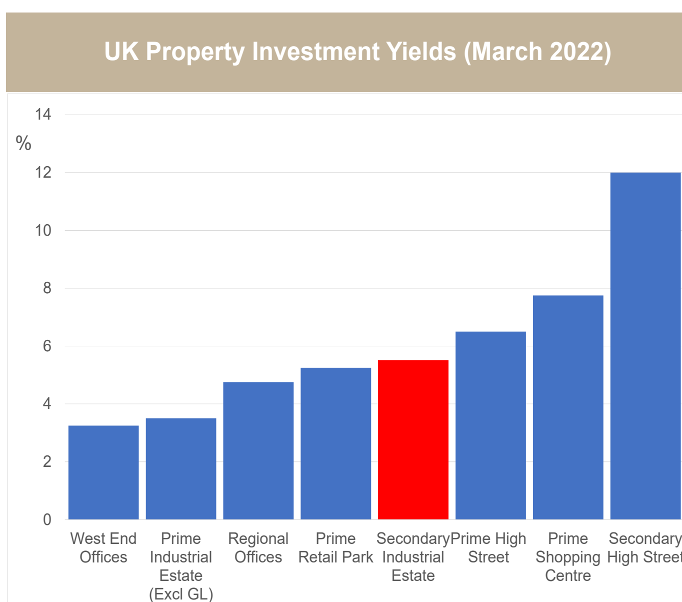
Bull: A secondary multi-let industrial estate.

Bear: That's hardly an original play, is it?

Bull: That's true, but given how the industrial market is performing, I can't think of a single reason why I shouldn't snap it up straight away. You surely can't have forgotten that industrials delivered a total return of 36.4% in 2021 and 12.4% over the last quarter!

Bear: Of course I haven't. But we've been here before. The majority of MSCI's industrial universe will be prime stock. A small, secondary industrial estate couldn't be further away from the big box distribution warehouses let to the likes of Amazon. And talking of Amazon, did you see that they are still dominating the shed market? They were responsible for 28.3% of total warehouse take-up in 2021, up from 24.8% in 2020.

Bull: That's crazy market domination. But I am not talking about a big box opportunity. This little gem is available for 6% according to the agents. That's 50 basis points higher than where CBRE have secondary estate yields in their latest index. Where else can you achieve these sorts of income returns, outside the accepted murky world of retail?



Source: CBRE

Bear: Maybe, but I'm still coming to terms with how quickly industrial yields have compressed. It's been eye-watering, bordering on ridiculous. From what I recall, secondary estate yields have moved in 125 basis points since last March, down from 6.75% to 5.50%. Prime industrial estate yields (excluding Greater London) have compressed 75bps over the same period to currently stand at 3.50%. It's beggars belief. It really does.

Bull: I don't know about you, Bear, but I haven't got deep enough pockets to get properly stuck into the prime industrial market. The competition is too fierce.

Bear: I definitely agree about the prime industrial kit. I'm hearing the bidding process is a minefield, a complete lottery whether you are successful or not. It's not uncommon for opportunities to trade between 10-30% above their asking price. That's not just a London thing either. It's happening across the regions too.

Bull: Yes. And it is happening with land sales as well, not just up-and-built shiny boxes. Last year saw a 71.5% increase in industrial land prices across the UK, up from £1.98m per acre to a whopping £3.39m per acre. Sites in Yorkshire which were previously typically trading at around £400,000 per acre are now selling for almost three times that amount! Hence why, as private investors, we need to be looking away from the best-in-class stock.

Bear: You are starting to intrigue me, but rental growth has played a huge part in the stellar performance of the industrial market. Given the economic issues the country is facing, won't rental growth start to tail off? We must be close to the point where the ceiling for industrial rents has been reached?

Bull: I don't think so. Industrial rental growth is showing no signs of slowing. Forecasters are predicting yet further rental growth this year of between 5% - 12%. Yes, I did say 12%!

Bear: That's good but have you thought about the actual practicalities of owning a multi-let industrial estate? There's traditionally a high tenant turnover, with occupiers on notoriously short leases. It will be very asset management intensive for you. I thought you were looking to take things easy after the pandemic?

Bull: You must be thinking of someone else. But anyway, how hard can it be? Tenant demand is still through the roof. Void periods are almost non-existent. Besides, even if a void did come up, industrial rents are moving fast enough that it might be an opportunity to drive forward the income return from the estate. As things stand at present there's every chance that a start-up company will come along in no time at all and pay what they are told to just secure the space.

Seconday Industrials

Bear: Start-ups? I think you'll find they're more accustomed to a Regus or a WeWork?

Bull: That's where you're wrong, Bear. Everyone assumes start-ups are tech firms who go straight into a serviced office. But what about all the manufacturers and tradesmen? Delivery businesses? According to data company, Statista, in 2021 there were approximately 270,000 business enterprises in the manufacturing sector in the UK. Only 1.9% of these were large enterprises that employed 500 or more people. That leaves the remaining 98% probably wanting space at the smaller end of the market.

Bear: Maybe. But start-up doesn't scream good covenant to me. As a private investor, I want secure income, not having to worry about whether the rent will come in each month or each quarter.

Bull: That's fair. But the general rule of thumb is that rent is only about 15% of a business's overhead. So, at the smaller end of the market, we're probably not talking about huge rent rolls. And like I said, a turnover of tenants is part and parcel of the multi-let industrial estate deal.

Bear: Point taken, and I also accept that there remains an acute shortage of new units coming to the market.

Bull: Especially for secondary units. According to BNP, only 13% of available UK industrial stock is classed as Grade-C (secondary). That doesn't sound like much to me!

Bear: It's not, but at 13%, it's still the highest level since 2016. I reckon this is a trend which could continue as occupiers trade existing space for newer units as existing leases expire.

Bull: Trust you to find a negative.

Bear: It's true though. Speculative development schemes are in the pipeline up and down the country. I think we could see a real tenant 'flight to quality.' If this happened, landlords might want to start thinking about upgrading the quality of their holdings.

Bull: Nonsense. So what if a shed does have an asbestos roof? So long as it doesn't leak, what's the point of changing it?

Bear: Landlords must be aware of obsolescence. Secondary stock that is coming to the end of its economic life will have to be future (and climate) proofed and that won't come cheap. Not to mention EPCs.

Bull: What about them? An assessment every 10 years. You lodge it on the database and then forget all about it.

Bear: Those days are far, far behind us now. Minimum Energy Efficiency Standards (MEES) dictate that all commercial buildings must have an EPC rating of E by 2023 and a rating of B by 2030, regardless of when the unit was let, or the lease was renewed. According to Avison Young, the 2023 MEES will impact 9,900 industrial properties. That's around 10% of UK industrial stock.

Bull: That doesn't sound too bad.

Bear: Maybe not. But do you know how many industrial properties currently have a C rating or less which will need to be upgraded by 2030?

Bull: No idea.

Bear: 89,900 properties or 90% of all UK industrial stock. You can't say that's not a cause for concern, especially as it will be up to landlords to bring their units into line… even if the property is let on a full repairing and insuring lease.

Bull: I hadn't thought about this. However, upgrading industrial stock is the easiest of all of the main sectors. There is only so much you can do. Install LED lights in the warehouse, solar panels on the roof. These items alone would easily push the EPC ratings up.

Bear: Maybe. The larger funds are going to be at the forefront of this as they work towards carbon neutrality and in some cases becoming carbon minus. But whether private investors grasp the nettle now, I'm not so sure.

Bull: If the EPC rating is such an issue, we can always just knock the building down and start again!

Bear: It's not as easy as that, Bull. Have you not seen where construction costs have got to? Not to mention the impact of rising inflation. Then there will still be factors like site coverage, HGV turning circles and access routes. Key aspects which many secondary estates don't currently have. It's not impossible to simply knock down and start again, but it's certainly not as easy as you make out either.

Bull: So, have I tempted you enough to participate in this juicy little shed deal?

Bear: Possibly. However, before I join you I'd like to know exactly how much pre-planned capital expenditure we'll need to be investing into the property and whether there are any potential alternative uses down the line.

Bull: Fair enough, I'll get those figures for you, but unlike you I'm not going to hang around, the MEES aren't moving to a B for another eight years! I'm keen to get some exposure to the sector now. I think the prospects of rental growth remain strong, and we may still see some further yield compression.

Bear: Very well, but don't say I didn't warn you. See you next week.

ST BRIDE'S MANAGERS

Bull and Bear

Transport Infrastructure

Bull is not happy. He launches into one of his rants about the unsatisfactory state of the country's transport infrastructure.

Bear: What's up, Bull? Your face looks like thunder.

Bull: I am not happy, at all.

Bear: Weren't you able to agree terms to buy that secondary industrial investment we talked about last week?

Bull: I did, actually. But no … that's not it. You have always emphasised the need for me to think strategically. And I have tried, Bear. I really have. Follow the infrastructure, you said.

Bear: So?

Bull: So … have you read the latest National Infrastructure Progress Review 2022? It is so depressing. What's the point of the Government having a National Infrastructure Commission if they are just going to ignore their recommendations?

Bear: Ah!

Bull: Just take a butcher's at these six extracts from the Review:

National Infrastructure Progress Review 2022	
1	"Slow progress over the last year means that Government is not on track to deliver on many of the policies and targets set out."
2	"The Government's Levelling Up White Paper is ambitious in its scope and aims, although some of its targets lack specificity… Levelling up should not mean Government leaving growth opportunities on the table."
3	"Beyond the West Yorkshire mass transit system, Government has no plans for major urban transport schemes in a number of priority cities."
4	"More than five million homes in England are at risk of flooding and climate change means the risk is growing."
5	"The roll-out of electric charge points is far too slow. Analysis suggests that by 2030 between 280,000 to 480,000 charge points will be needed … but by the end of 2021 only around 28,000 charge points had been installed."
6	"In the Cambridge - Milton Keynes - Oxford Arc, Government has cancelled plans for the Oxford - Cambridge Expressway… It remains committed to the east west rail link."

Source: National Infrastructure Commission

Bear: I get it, now. You are grumpy because that speculative land purchase you made last year outside Cambridge is no longer going to get planning approval.

Bull: That isn't the point! I am just frustrated at the number of hours we have wasted on Zoom attending Bidwell's seminars on the Oxford - Cambridge Arc.

Bear: Fair enough … but what else would you have put into your RICS annual CPD return?

Bull: It's been such a ridiculous waste of time and money getting the sector all worked-up on what was a really inspired Government idea, only to find they have now flushed it down the loo. And this is on top of them aborting (most of) the eastern sector of HS2 at the end of last year.

Bear: Steady on Bull.

Bull: Don't stop me now, Bear. I need to get this off my chest. Based on their track-record, the Government's new Levelling Up plans to promote 'transport connectivity' is just moonshine. We cannot carry on like this. Apart from the money thrown away on the eastern leg, their record on completing infrastructure schemes on time is woeful. For example,

1. The London to Birmingham stretch of HS2 was expected to be completed in 2026. It looks more likely to be 2029-33 now. And because the Government massively underestimated the cost of buying the land, the budget has risen from £1.1 billion to nearer £5 billion!

2. Moreover, the Birmingham to Manchester stretch, via Crewe, was expected to be completed by 2032-35. It is now 2035-40. And the original budget of £55.75 billion (2015 prices) has rocketed to £72-98 billion (2019 prices).

Bear: If we ran our business like this, we would have gone bust years ago. At least Crossrail/ The Elizabeth Line is set to open within the next three months.

Bull: Yes … but that is three and a half years late too! And the cost has increased from an original budget of £15 billion to £18.25 billion. The UK is meant to be a grown-up economy. It is the fifth largest in the world. Shouldn't we at least act like grown-ups and stop dragging our feet on key infrastructure projects such as these?

Bear: But think of the upside of Crossrail. It will provide a 10% increase to the London Underground network, get passengers from Central London to Heathrow in 30 minutes and each train will carry 1,500 passengers. That's twice the present number.

Bull: I know. Crossrail has always been a great idea and so is HS2 / and the Oxford-Cambridge Arc. We need them all. But I am weary of the ridiculous procrastination, mind-changing and poor project management of the schemes. It took them thirty-three years to finally get going on Crossrail. Thirty-three years!

Bear: But looking on the bright side, the excavations for the twenty-six miles of new tunnels became the largest-ever archaeological dig in Britain. Finds included a woolly mammoth's jawbone, flint tools, Roman coins, Tudor shoes and Victorian pickle jars.

Transport Infrastructure

Bull: That's all well and good, Bear. But, at present, I am much more concerned about getting London and the rest of the country back on its feet after the pandemic. Changing working habits mean that passenger traffic in 2026 is now predicted to be more like 130-170 million compared to the original forecast of 250 million. And TfL already has a massive hole in its finances.

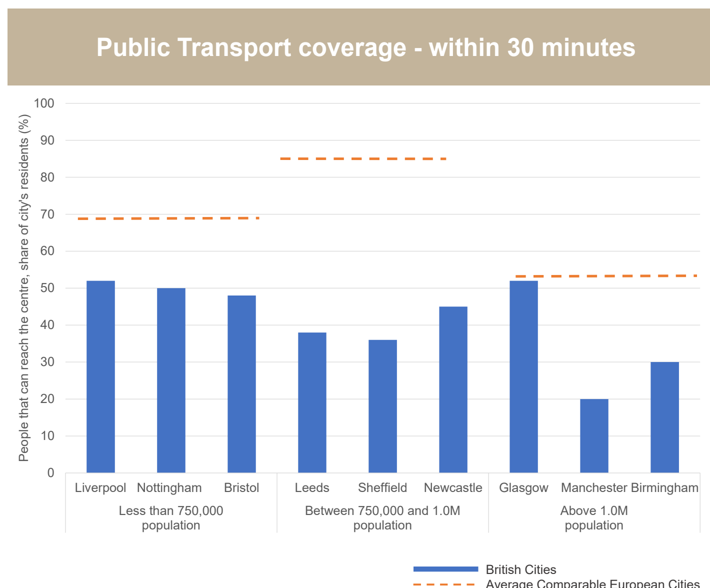
Bear: That's going to be a problem, isn't it?

Bull: Yes, it certainly is. The Government has needed to bail out TfL four times recently. They have injected close to £5 billion on top of their annual commitment of just over £1 billion. Massive cuts to London schemes, which, until now, have been considered a priority, look inevitable.

Bear: It's a bit ironic then that one of Michael Gove's Levelling Up missions is for "the rest of the country's local public transport systems becoming much closer to London's standards." This sounds like a classic case of being careful what you wish for!

Bull: Something really must be done. In their most recent report, Centre for Cities demonstrate unequivocally that public transport in UK cities is noticeably worse than elsewhere in Western Europe. Just look at the bar chart below. Only Glasgow gets anywhere near matching its counterpart (Lyon) in terms of its transport accessibility. All our other major cities are way behind.

Public Transport coverage - within 30 minutes



Source: ONS, Eurostat, Centre For Cities

Bear: To be fair though, on the continent, city densities tend to be noticeably higher than ours. We prefer to tolerate longer commutes from our low-density housing estates in the sticks than live in high/medium rise apartments in the city centre. That really affects the numbers.

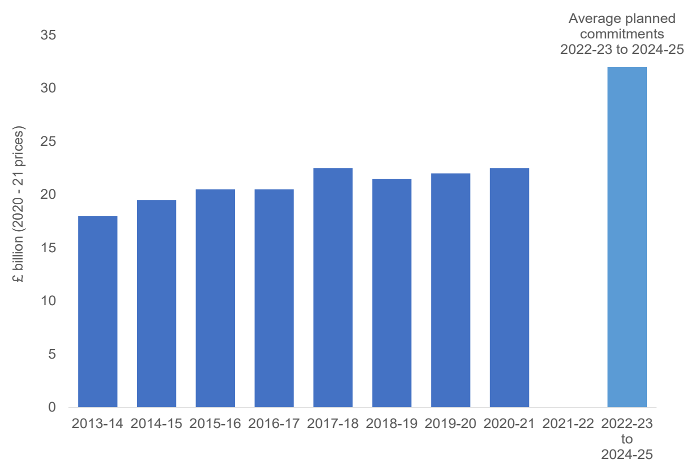
Bull: But it also reinforces the need to better integrate our transport planning with land use/development.

Bear: What do you mean?

Bull: For instance, HS2 has always been primarily viewed as a transport project. For instance, how fast can it go? How many passengers can it carry? It has never been seen as the facilitator of major economic growth. That was what was so great about the Oxford – Cambridge Arc where the vision was to establish a rival to Silicon Valley. The road and rail connectivity was simply a catalyst.

Bear: All this costs a ton of money, though. In their Spending Review 2021, the Government committed to £300 billion (£100 billion per annum average) to infrastructure over the three years to April 2025.

Public Spending on Economic Infrastructure



Source: National Infrastructure Commission, HM Treasury

Bull: Looking at the chart above and given their recent track-record, I just cannot see it happening. But please don't misunderstand me. I know we are going through really difficult economic times at present. If we can't afford the schemes, fair enough. All I am asking for is much clearer strategic thinking and an end to this really disheartening stop-start indecision.

Bear: Wow! You are properly agitated, aren't you? Have you got any positive comments to share?

Bull: I could tell you about the latest on the third runway at Heathrow.

Bear: Is this another of your pub jokes like … 'Have you heard the one about the Englishman, the Irishman, and the Scotsman?'

Bull: No. I am serious.

Bear: Blimey! I thought that old chestnut had fallen away.

Transport Infrastructure

Bull: Not yet! Just before Christmas, the Supreme Court over-ruled an earlier Court of Appeal judgement. The scheme now has a green light.

Bear: But realistically, will it ever go ahead?

Bull: We won't know until later this year. Supposedly the owners of Heathrow will be using the next few months to reassess their plans. They still need to get planning consent, but since Parliament voted in favour of the scheme in June 2018, that should be achievable … albeit there are still bound to be plenty of objections.

Bear: You can bet your bottom dollar though that it will cost more than the previous estimate of £14 billion.

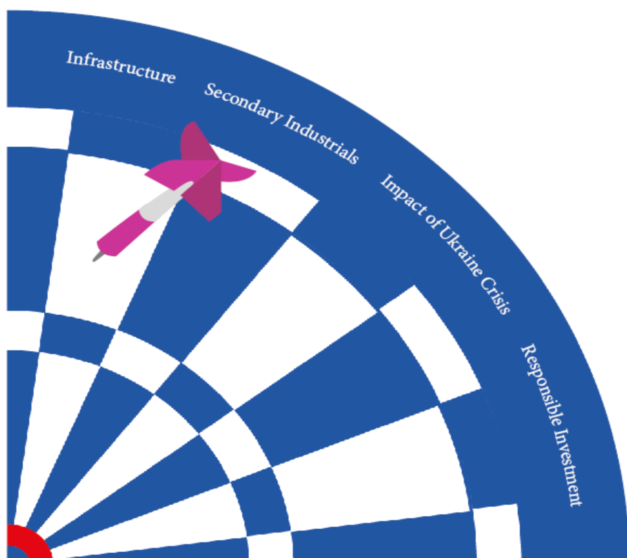
Bull: Yes, almost certainly, unless they can find a way to streamline the scheme. One of the key issues now though is passenger numbers. They aren't even expected to get back to their pre-pandemic level of 80 million until 2025/26. And the viability of the scheme assumed a huge rise to 130 million passengers in 2035. That looks like a very tall order to me.

Bear: Phew! Are you done? Is there anyone else you want to rip into while you are at it?

Bull. Nope. I'm done. And I feel soooo much better for it.

Bear: And your conclusion?

Bull: Back in 2015, the OECD said "The perceived quality of UK infrastructure assets is close to the OECD average but lower than in other G7 countries." We know that not a lot has changed since then. So, if I was writing a head teacher's end-of-term report to the Government, I would have say: "There is definitely room for improvement. More concentration and less time messing about at the back of the class might help!"



ST BRIDE'S MANAGERS

Bull and Bear

Rent Arrears - Gloves Off Time?

With the rent moratorium ending on 24 March 2022, Bull and Bear discuss the implications of the new legislation for landlords and tenants in relation to rent arrears.

Bull: So then, Bear. What's today's topic? I'm hoping that whatever it is, we can cover it off in double quick time. I need to get out of here pretty sharpish to go and watch the London Landmarks Half Marathon.

Bear: Why? Long distance running is hardly your speciality!

Bull: Because not only is it a fantastic event, but there's also a team of runners wearing giant costumes of famous London landmarks, all looking to raise much needed monies for Boost. Given the awkwardness of their costumes, I am sure they would welcome all the support they can get.

Bear: And not just from the pavement either, I assume? I suspect your next few words will be a shameless plug of their sponsorship page, won't it?

Bull: We've clearly been working together for far too long! Anyway, it would be rude not to. https://donate.giveasyoulive.com/fundraising/teamlondonlandmarks

Bear: That's highly commendable stuff. But for the topic of the day, let's discuss the Commercial Rent (Coronavirus) Act 2022 which came into force on 24 March 2022.

Bull: First thing on a Sunday morning? Are you completely mad?

Bear: Maybe. But it marks an important milestone in the UK property market's recovery following the pandemic. It should allow commercial tenants and landlords to draw a line under all the uncertainty caused by COVID.

Bull: I accept it's important, but before we delve into the legal intricacies of the Act, can we firstly take a step back? Surely the rent moratorium that's been in place since March 2020 has given everyone enough time to negotiate a fair deal? Is there really that much outstanding rent that still needs to be resolved?

Bear: That's a good question. According to the British Property Federation, agreements have been reached on the treatment of rent arrears in more than 80% of cases since the start of the pandemic. But that means there is still plenty up for grabs.

Bull: Like how much? And don't say about 20%!

Bear: Research from Remit Consulting predicts the shortfall in rent unpaid by business occupiers now exceeds £8 billion.

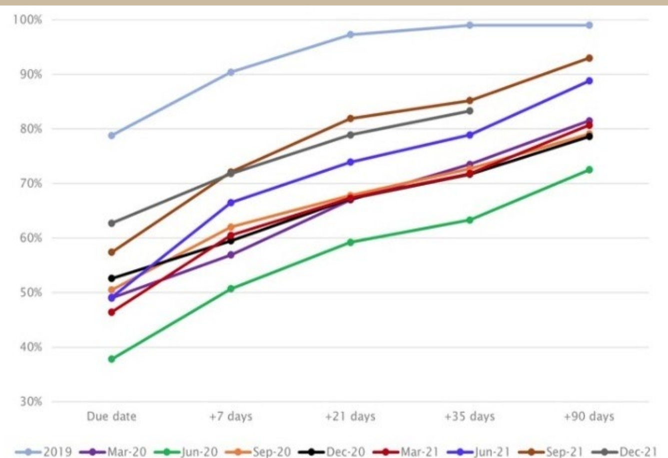
Bull: £8 billion? Crickey. That's a big number. No wonder then that further legislation has now been introduced to bring it to a head.

Bear: Exactly. If you actually think about it, since March 2020 landlords have been consistently experiencing shortfalls in the rent they receive every quarter. Despite the gradual improvements in the collection figures, many occupiers still have rent arrears.

Bull: So, are there any tenants who are still not paying their rent (and service charge)?

Bear: The situation has improved but there is still some way to go until we get back to pre-pandemic collection levels. According to Remit, verified figures of rent collected thirty-five days after December 2021's due date revealed an overall figure of 83.3%. While this is the second highest thirty-five-day percentage recorded since the start of the pandemic, it is still well below the 99% record at this stage in Remit's Remark Report from 2019.

Commercial Property Rent Collection - Overall Average Rent Comparison



Source: Remit Consulting

Bull: And I suppose retailers and leisure operators make up the bulk of the shortfall?

Bear: The underlying trends make for quite an interesting read. To start with, at 83.2%, the collection of rent from retail occupiers was the highest thirty-five-day figure over the past twenty-two months. And to put that figure in context, collection of rent from industrial occupiers was less, at 80.6%.

Bull: Wow! I did not expect that. I thought industrials could do no wrong!

Bear: I told you the stats were interesting.

Rent Arrears - Gloves Off Time?

Rent Collection by Sector - December 2021					
	Retail	Offices	Leisure	Industrial	Overall Average
Due Date	62.3%	70.7%	52.4%	61.1%	62.7%
7 days	70.1%	79.1%	61.4%	69.5%	79.1%
21 days	77.0%	87.3%	66.4%	78.5%	78.9%
35 days	83.2%	90.0%	79.5%	80.6%	83.3%

Source: Remit Consulting

Bull: Whatever floats your boat, Bear. But now that we've established there is still lots of unpaid rent out there, I suppose we should focus on the new Act. Can you give me a quick summary of it?

Bear: Of course. Under the Coronavirus Act 2020, a moratorium was imposed on all landlords in England preventing them from forfeiting commercial leases on the grounds of arrears. Additionally, landlords have been subjected to restrictions on their ability to exercise Commercial Rent Arrears Recovery (CRAR) or issuing winding up petitions where tenants have built up arrears. All those restrictions have now expired due to this new Act.

Bull: So, it's now a complete free for all?

Bear: Far from. You will recall that the Government introduced a new code of practice last year to help landlords and tenants resolve disputes over arrears. The mantra has been very clear in that where tenants can pay, they should pay, and where they can't pay, they are expected to negotiate with their landlords.

Bull: So, what's changed with this new legislation?

Bear: What the new Act does is ring-fence certain rent arrears that accrued during periods of coronavirus-related closure and business restrictions. They are known as 'protected rent debt'. These debts include not only rent but service charge, insurance rent, VAT and interest which fell due between 21 March 2020 and 18 July 2021 (in England) and 7 August 2021 (in Wales).

Bull: Is it the same for every sector?

Bear: No it's not. Some sectors are excluded, like offices and industrials. But retail is included, although the ring-fencing periods differ depending on the specific use.

Bull: How do you mean?

Bear: Take a clothes shop and a café. The length of time they were forced to be closed by the Government were different. As a consequence, their protected periods are different.

Bull: That makes sense. So, am I right in thinking that if a national retailer had multiple shops and a seperate head office, the retail leases would qualify but the office lease wouldn't?

Bear: Spot on, Bull.

Bull: And am I correct in thinking that any industrial or office occupiers who have not been paying rent during the pandemic will now have to face the music?

Bear: Yup. Stop showing off!

Bull: So talk to me about the rent arbitration scheme set out in this new Act. Is it legally binding? Who can apply? How long do they have to apply?

Bear: Questions, questions. The award will be legally binding. Both landlords and tenants can apply unilaterally and they have six months to make an application.

Bull: That's encouraging. Given this Act has only just been introduced, I'm intrigued to know who these arbitrators will be? How do they get appointed?

Bear: The arbitrators are currently going through an approval process to demonstrate their impartiality and competency to resolve the disputes. The Government will be publishing a list of approved bodies in due course.

Bull: Has there been any information released so far about how an award will actually be determined?

Bear: The arbitration will be based on the ability of the tenant to pay protected rent debts. The arbitrator's decision should have regard to the principles that any award should be aimed at preserving or restoring the viability of the tenant's business, so far as that is consistent with preserving the landlord's solvency.

Bull: So does that mean that no award could be made where the underlying business of the tenant is not considered to be viable?

Bear: Quite possibly. Say a tenant hasn't paid their rent since post-lockdown, that might be a strong indication that their business is no longer viable. In this case, that tenant may not qualify for an award. The arbitrator can award a full or partial write-off, deferral of payment of the protected rent debt for up to twenty-four months, or no concession and full payment to the landlord.

Bull: Twenty-four months? Most landlords no longer want, or are able, to soft pedal. I can see the gloves coming off many of them. They just want to move on.

Bear: This new Act allows them to do that.

Bull: Not for these so-called "protected debts", it doesn't. Landlords can't serve winding-up orders, issue debt claims, initiate CRAR, drawdown on rent deposits during the next six months. It's another moratorium for these protected rent debts, isn't it?

Bear: It is, but for protected rent debts only. Landlords can now enforce their usual remedies for non-protected rent arrears. There is nothing stopping them from pursuing the likes of forfeiture or CRAR for these non-protected debts.

Rent Arrears - Gloves Off Time?

Bull: That will come as a relief to some landlords, won't it? And I'm sure it will keep the property litigation lawyers busy!

Bear: That's a given! I just hope this Act allows everyone to move on. But that said, I do think there are still some reasons for landlords to remain nervous.

Bull: What makes you say that?

Bear: With high inflation expected to hit consumer spending, plus the cost of debt rising, many of those tenants who have found life extremely tough over the last two years may well find themselves up against it again.

Bull: Trust you to finish things off with negative sentiments! Anyway, thanks for your insight on this. It certainly will be interesting to see how it all pans out.

Bear: It sure will.

Bull: On that note I'm going to dash off and see if I can spot Boost's runners. Given the lack of training they've done and those outlandish costumes they are wearing, they are bound to still be out on the course by the time I get to the Embankment!

Bear: Enjoy yourself and see you next Sunday.

Commercial Rent (Coronavirus) Act 2022 ("the Commercial Rent Act") - Key Takeaway Points

The major restrictions on landlords to recover rent arrears came to an end on 25 March 2022.

Instead the Commercial Rent Act brings about the following changes to forfeiture of leases, debt claims, winding up proceedings and enforcing judgments against tenants during a new Moratorium Period (24 March 2022 to 23 September 2022) (the Moratorium Period):

- Arrears that have come about when the tenant's business was forced to close (during 21 March 2020 to 18 July 2021) will be "ringfenced" (Protected Rent Debt).
- Protected Rent Debts include not only rent but service charge, insurance rent, VAT and interest.

Forfeiture

- Landlords may now forfeit a lease for rent that is not a Protected Rent Debt.
- Landlords are not entitled to forfeit for non-payment of a Protected Rent Debt during the Moratorium Period.

Commercial Rent Arrears Recovery (CRAR)

- Landlords may exercise CRAR for unprotected debt.
- Landlords are not entitled to exercise CRAR for non-payment of a Protected Rent Debt during the Moratorium Period.

Debt Claims

- Landlords are not entitled to issue debt claims for a money judgement for non-payment of a Protected Rent Debt during the Moratorium Period.
- Instead, during the Moratorium Period, a tenant (or a landlord) may be entitled to serve notice to refer the matter to arbitration. In short, the arbitration will resolve disputes based on the ability of the tenant to pay the Protected Rent Debt.

Winding up Petitions

- Landlords are not entitled to present a winding up petition solely in relation to a Protected Rent Debt.

Source: Walker Morris.

ST BRIDE'S MANAGERS

Bull and Bear

Life Sciences - Living up to expectations?

With the UK fast becoming a leading centre for Life Sciences in Europe, Bull and Bear consider the future of the sector as an established real estate asset class in its own right.

Bear: Ah, that's better. You just can't beat a refreshing pint at the St Bride's Tavern. Especially when you, Bull, are paying! Anyway, what's got you so chipper? I can't remember the last time you offered to buy a round.

Bull: I'll ignore that. But it's true, I am feeling rather smug. I've finally come up with a bullet-proof investment strategy that even you can't argue with.

Bear: Oh, here we go! Where should we be investing our money now? Tertiary industrials? Run-down High Street shops? Theme Parks? You haven't gone and bought a campsite, have you?

Bull: Very funny, Bear. You know how much I hate camping. But the truth is we have spent long enough focusing exclusively on the traditional asset classes. The real answer has been staring us in the face all along.

Bear: It has?

Bull: We need to be investing in the Life Sciences sector, Bear. That's where the future lies.

Bear: What do you know about laboratories, Bull? You don't even know the difference between a wet or dry lab and a black lab? Surely this is one sector that should be left to the specialists, not the traditionalists like us.

Bull: But that's where you are wrong, Bear. Since the pandemic, life sciences have been at the forefront of everything that's been going on. Developing vaccines, coming up with treatments, diagnostic testing … the sector is absolutely turbo-charged.

Bear: But haven't we missed the boat?

Bull: On the contrary, Bear. Remember, the UK has an ageing population and we're dealing with an explosion in new lifestyle-related diseases. There is huge demand for better diagnostic and therapeutic technologies. And it's only going to increase.

Bear: That's true. And we have a Government that is prepared to throw its weight behind the sector in terms of direct funding and investment.

Bull: Give me a break! As per my rant last Sunday, what makes you think they won't change their mind on this too. But – yes, it is true that everyone appears to be trying to get in on the act. For example, I heard that there were more than thirty bids in the first round for the £350m Snowsfield Quarter development around Guy's Hospital / King's College campus at London Bridge.

Bear: Wow!

Bull: Yes. Guy's and St Thomas' Foundation, who are selling the site, want to provide "spaces that can foster partnerships to drive life-enhancing research that could improve population health in the UK and beyond". Who wouldn't want to buy into a mission statement like that?

Bear: I buy into the vision, Bull, but I still have some practical concerns.

Bull: Like what?

Bear: Well for starters, surely many of the occupiers involved in life sciences are start-ups, with little or no track record. If I am investing my money into a bespoke life sciences building, I really want established tenants who are willing to sign long-term pre-lets.

Bull: My dear Bear, that's the old-school mindset. What you have just done is beautifully highlight the traditional barriers to entry into the sector. Investors in this market have to understand the wider life sciences ecosystem and the benefits that come with all the associated spin-offs.

Bear: Ecosystem?! The only ecosystems I can recall are from my days studying O-level biology.

Bull: For the sector to flourish, you need to help these start-ups interact and collaborate. This is why you have to have clusters.

Bear: Like Imperial College's ten-hectare Innovation District at White City?

Bull: Exactly. They claim to have over 1,300 scientists, clinicians and engineers on the campus, and they have invested over £2 billion into the scheme.

Bear: I think I can understand the theory behind your clusters and so-called "ecosystems", but how does this translate into real estate? Are we simply talking about converting old office buildings?

Bull: Absolutely not. Life sciences' occupiers require bespoke buildings.

Bear: In my experience, anything that's bespoke has the potential to go wrong.

Bull: It is true that life science's occupiers need buildings that are fit for science. You typically need better slab-to-slab heights than you'd find in an office building, delivery access, goods lifts, the ability to enhance the M&E for additional power provision etc. But if there are going to be queues of potential occupiers to take the space, that doesn't necessarily make them bespoke, does it? They just need to be adaptable.

Bear: I have to say, the more I hear about it the more intrigued I am becoming. How do I go about getting a share of the action?

Bull: Well, the obvious place to start is the UK's 'Golden Triangle' - London, Cambridge and Oxford and with Stevenage gaining ground too.

Bear: But aren't they just university cities, with some excellent pubs and great river punting?

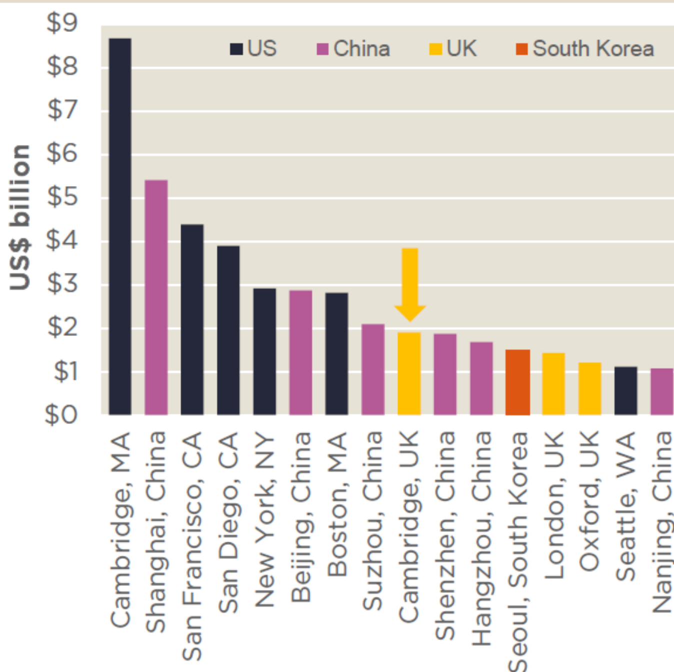
ST BRIDE'S MANAGERS

Bull and Bear

Life Sciences - Living up to expectations?

Bull: You need to get up to speed, Bear. The inflows of corporate and venture capital investment are seismic. Take Cambridge, for example. £1.5 billion of venture capital was poured into the sector in Cambridge alone last year. That's more than London!

Global Venture Capital raised for the Life Science Sector by Global City (2021)



Source: Savills, PitchBook Data Inc

Bear: But I ask again, what does this mean for real estate developers and investors?

Bull: According to Savills, Cambridge has about 10.2 million sq.ft. of office and laboratory space, but they estimate that only a quarter of this is dedicated lab space. And whilst office availability sits around 10%, the laboratory availability ratio is barely above zero. There's an absolute bottleneck in demand.

Bear: Which in my experience means rising rents!

Bull: Precisely. Savills forecasts suggest that laboratory rents in Cambridge are expected to rise to £60 per sq. ft. over the next three years. However in my opinion they could go much higher!

Bear: It sounds to me like anyone with the land and firepower to deliver well thought-through-schemes are going to make hay. Is it a similar story for Oxford as well, then?

Bull: Yes. It is ranked 13th for global venture capital raised last year.

Bear: That's ahead of the likes of Paris, Seattle, and Chicago!

Bull: And Oxford has made especially good strides in linking their academia / research, with corporate spin-offs. Oxford Sciences Innovation, for example, is the world's largest university-partnered venture firm working to help develop science-based technology companies.

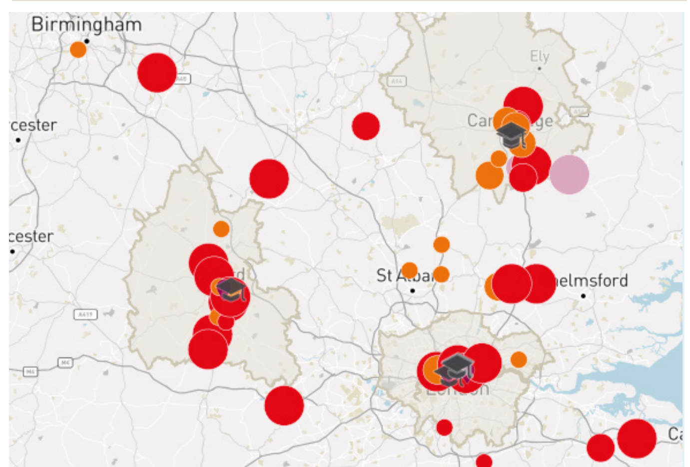
Bear: And I suppose that all this fundraising underwrites future occupational demand levels for real estate?

Bull: It does indeed. It won't surprise you that nearly two-thirds of the office and laboratory take-up in Oxford last year was from Biosciences. Companies are rightly climbing over themselves to co-locate with the world-class academic institutions and their associated spin-out activity.

Bear: Gosh. If I've got my calculations right, the combined 'Golden Triangle' of London, Oxford and Cambridge would be placed third in the global rankings for venture capital raised. I think you are really onto something here, Bull. The US are still leading the way at a global level, and China is well positioned too, but at this rate, surely the UK is in bronze medal position?

Bull: And all that's before we start looking outside the Golden Triangle. For example, the amazing innovation districts that Bruntwood SciTech are delivering in places like Manchester, Birmingham and Leeds. And we haven't even mentioned Edinburgh's new bio-quarter.

Existing Life Sciences Clusters focused around the 'Golden Triangle' of London, Oxford and Cambridge



Source: JLL

Bear: It's fascinating, isn't it?

Bull: Yes, but it's time to get off the fence. Are you in?

Bear: I would like to take a deeper dive into the detail, and there's the small matter of pricing, of course!

Bull: Come on, Bear. Where there's a will there is a way. There is certainly no shortage of educated capital looking to drive the UK Life Sciences sector forward. If we get our near-forty year personal ecosystem act together, we'll be onto a winner!

ST BRIDE'S MANAGERS

Bull and Bear

Easter Pub Quiz

It's the St Bride's Tavern Easter Pub Quiz and Bear is confident that he has got all the questions correct. However, he has made one massive mistake. Can you spot which one it is?

Bear: Where are you going, Bull? Sit down.

Bull: I have been asked to be the quiz master for today's pub quiz.

Bear: What? What happened to the usual guy?

Bull: He's taking a break over Easter. Don't worry. I have got it sorted.

Bear: With you in charge, anything could happen. Please don't embarrass yourself.

Bull: Okay folks! Settle down. Here we go. Welcome to the St Bride's Easter Quiz. I have chosen five themes – Films, Politics, Sport, Music and General Knowledge and they all have a connection with today's date.

Bear: C'mon. Get on with it.

Bull: There are two questions on each theme. So, for those of you who struggle with your mental arithmetic, that means there are ten questions in all … unless of course you are a selling agent in which case it's eleven! Let's get started with two easy ones:

Q. 1.1 Question one is on Films. Today, 52 years ago on 17 April 1970, after a near-catastrophic failure of one of their oxygen tanks, the Apollo 13 moon mission team returned safely to Earth.

Everyone knows that Jim Lovell was played by Tom Hanks in the film version of the mission, and Lovell's two colleagues were Jack Swigert (Kevin Bacon) and Fred Haise (Bill Paxton). What words were used by the crew in 1970 to communicate to Mission Control that something had gone amiss in the service module?

Q. 1.2 Tom Hanks has, so far, only won two Oscars for best actor. Which of these twelve films were his Academy successes - Apollo 13, The Bonfire of the Vanities, Captain Phillips, Cast Away, The Da Vinci Code, Forrest Gump, The Green Mile, Philadelphia, Saving Private Ryan, Sleepless in Seattle, Sully, You've Got Mail?

Bear: Both those questions are easy-peasy.

A. 1.1 Everyone knows what Jim Lovell said. We use it all the time! ''Houston, we have a problem''.

A. 1.2 They were all great films and he should have won more, but I am 99.99% sure that he collected his Oscars for Forrest Gump and Philadelphia.

Bull: Okay folks. Moving on and remember, absolutely no sneaking on your smart phones. Theme two - Politics.

Q. 2.1 Tom Hanks claims to be related to which of these ten former US Presidents – George Bush, George W Bush, Thomas Jefferson, John F Kennedy, Abraham Lincoln, Richard Nixon, Franklin D Roosevelt, Theodore Roosevelt, Donald Trump, George Washington?

Bear: What? Is this entire quiz going to be all about Tom Hanks?

Bull: Quiet in the ranks, please.

Q. 2.2 The World Snooker Championships began yesterday in Sheffield and the sport was invented on this very day one hundred and forty-seven years ago on 17 April 1875. The inventor shares the same name as one of these ten twentieth century British prime ministers – Stanley Baldwin, Tony Blair, James Callaghan, David Cameron, Neville Chamberlain, Edward Heath, Ramsay MacDonald, Harold MacMillan, Margaret Thatcher or Harold Wilson. But which one?

Bear: I am pretty sure I have got these two questions covered. This is what I think:

A. 2.1 I read somewhere that Tom Hanks is the 3rd cousin, four generations removed of Abraham Lincoln, through Abe's mother, Nancy Hanks.

A. 2.2 Snooker's inventor was Neville Chamberlain. And for the avoidance of doubt, he definitely wasn't the same chap who claimed he had secured 'Peace for our time'.

Bull: Okay, quieten down please. As I am sure everyone will know, today, 17 April, is International Bat Appreciation Day. So, let's move on to the third round.

Q. 3.1 Out of all the top 50 international Test batsmen ever, ten have been English, but only one is still playing, Joe Root, who has an average of 49.2 runs from 216 innings. In the last seven years, England have capped twenty specialist batsmen and wicket-keeper batsmen. Collectively, what is their average score per innings? I will accept anything within two runs!

Q. 3.2 Can you put these five bat/racquet sports in order of global popularity in terms of participation – Badminton, Baseball, Cricket, Table Tennis and Tennis?

Bear: Leave these to me. I am pretty sure I know the answers.

A. 3.1 I saw an article in The Times last week on this very topic. It didn't make great reading. If I remember correctly, the answer is 23.8 runs. Rory Burns comes in top at 30.3 runs but four of them were less than twenty. With the season just beginning though, let's be positive … and call it 'work in progress'.

A. 3.2 The order is table tennis (300m), cricket (220m), badminton (220m), tennis (87m) and baseball (65m).

Bull: Moving on then everyone, to the Music round.

Q. 4.1 Today is Victoria Beckham's (née Adams) 48th birthday. Happy Birthday Posh Spice! Can you name the other four members of the Spice Girls band, and their stage names?

Q. 4.2 And, secondly, although only linked to music by association with Victoria Beckham, is it true or false that Tom Hanks played a cameo part in the 2002 film 'Bend it Like Beckham'?

Easter Pub Quiz

Bear: For Heaven's sake! What's this fixation with Tom Hanks? Anyway, at least I know the answers:

A. 4.1 Apart from Victoria, The Spice Girls were made up of Melanie Brown (Scary Spice), Emma Bunton (Baby Spice), Melanie Chisolm (Sporty Spice) and Geri Halliwell (Ginger Spice).

A. 4.2 Tom Hanks in 'Bend it Like Beckham'? No way. The nearest he ever got to football/soccer was the relationship he had with the 'Wilson' branded ball that drifted onto his desert island beach in Cast Away… and even that was a volleyball!

Bull: Okay folks. Last round. General Knowledge, with an Easter theme.

Bear: I bet he asks us what Tom Hanks is planning to eat for his Easter Day lunch!

Bull: Hush.

Q. 5.1 How is the date each year for Easter Sunday decided?

Q. 5.2 Cadbury make half a billion Creme Eggs every year and if you stacked them alongside each other they would stretch from Bourneville to Sydney. According to Cadbury, what is the average number of Creme Eggs we eat per person each year in the UK? Is it 3.5, 13.5, 23.5, 33.5, 45.5 or 50.5?

Bear: Ah yes. I remember my grandmother telling me the answers to these.

A. 5.1 Easter Day falls on the first Sunday after 21 March following a full moon. And we had a full moon last night … which now explains why Bull was howling!

A. 5.2 Cadbury says it is only 3.5 eggs a year! But that seems ridiculously low to me. If I am in the right mood, I could easily eat more than that in one sitting!

Bull: That's it, folks. Time's up! Let's have your answers. Anyone who gets them all right wins this massive Easter Egg!

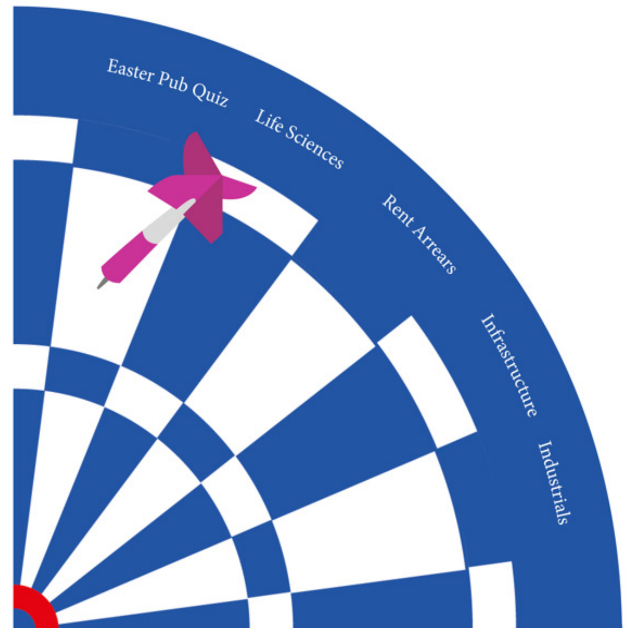
Bear: Bull, I am pretty sure that I have got them all correct.

Bull: Okay. Let me have a look, Bear.

Not bad. You have got nine out of ten right. But your mistake is a classic! You've got the Apollo 13 communication question wrong. In real life, no-one ever, ever said – ''Houston, we have a problem''. In fact, Swigert was recorded as saying ''Okay Houston, we've had a problem here''. And then Lovell confirmed it with, ''Uh, Houston, we've had a problem''.

Bear: That's a sneaky one, Bull. Do you know what your problem is? You are mean. You never intended giving that Easter Egg away, did you? I bet you are going to scoff the whole thing yourself.

Bull: You are darned right, I am. Happy Easter.



The Metaverse

Bull and Bear enter unchartered territories this week as they try to make sense of a recent *React News'* article on the 'Metaverse'.

Bull: Good morning, Bear. How are you doing? I must say you look rather confused!

Bear: You'd be right! My head is a bit mushed, to be honest. I've just been reading this article in *React News* entitled 'Will property firms thrive in the Metaverse?'

Bull: I assume you mean Midtown. Well, if you ask me, there are still a lot of challenges around that particular office market going forward, none more so than getting occupiers back into the office. If you look at the most recent take-up figures…

Bear: No Bull, stop! Not Midtown, the Metaverse! As far as I can tell, it's a new digital world and everyone seems to be talking about it.

Bull: Ah okay. Well, I think it's fair to say I know even less on this topic than you do! This could be one of our shortest conversations yet!

Bear: That's an understatement as I'm also starting from a pretty sketchy knowledge base. What I have heard though is that both CBRE and Harper Dennis Hobbs are in on the action. So, assuming that's right, it may be worthwhile trying to get our heads around it, even if it does seem incredibly confusing.

Bull: So, what else do you know about this mystical world?

Bear: Well, according to my good friend, Google, the Metaverse is a shared virtual environment where users can login (via the internet), socialise with each other, shop and attend experiences like concerts.

Bull: You lost me at "shared virtual environment" I'm afraid. What does that mean?

Bear: Okay. I'll go a bit slower. This 'digital world' is accessed via Virtual Reality goggles, like the ones in the photo below. Essentially you put them on and they will track your head movements and you will feel like you are in an immersive 3D experience.

Source: Shutterstock

Bull: That sounds like a bit of fun. So, what you are saying is that I can be virtually sat in a green grass field when in reality I'm actually lying on the sofa? If that's the case, then sign me up!

Bear: There's slightly more to it than that, but you're on the right lines!

Bull: I'm intrigued. Given our collective knowledge base is, well, limited, shall we pick three snippets from the *React News* article and see if we can collectively decipher what they mean?

Bear: That sounds sensible. I'll start.

"Each metaverse has a limited supply of 'land'. In the Sandbox it's 166,464 'parcels', and in Decentraland it is just over 90,000. Each parcel is linked to an NFT and is therefore unique."

Bull: Parcels in a Sandbox? That sounds like Christmas Day on Bondi Beach if you ask me! The Sydney weather is far too hot at that time of year for my liking! Besides, I like my turkey roasted not barbecued!

Bear: You and me both! However, let's try not to fall at the first hurdle and instead break this down. The Sandbox and Decentraland are different types of Metaverse. They are the same concept but different 'worlds'. They're just different types of the same product… at least as far as I can tell!

Bull: Okay. That makes sense. I guess these 'parcels' must be plots of land ready to be built on? And there are only so many parcels in each Metaverse, just like there's only so much land in the real world to build on. Let's just hope the planning system in the Metaverse is more efficient than what we have in the UK.

Bear: Exactly Bull. I think we're slowly making some progress. But what about the next bit? *"Each parcel is linked to an NFT and is therefore unique."*

Bull: NFT? More like WTF! I'm lost again!

Bear: An NFT is a Non-Fungible Token… duh!

Bull: Non-Fungible. That sounds like the cream the vet recently prescribed for your paws!

Bear: Very funny. Anyway, that's all cleared up now, you'll be pleased to know! This is how the article defined Non-Fungible Tokens (NFTs):

"NFTs hold pieces of data such as artwork, music or virtual houses with unique codes that provide proof of ownership. This ownership is secured on blockchain, the same protocol that authenticates bitcoin. NFTs are bought and sold on digital marketplaces such as OpenSea."

The Metaverse

Bull: Well, that definition hasn't helped me in the slightest. Blockchain? Bitcoin? OpenSea? It might as well have been written in Chinese! But from what I've read in the past, which I must reiterate hasn't been a great deal, an NFT is like the key to an item, be it a piece of virtual artwork or a parcel of land in the Metaverse. People can trade them but there's only a certain amount available and they can't be replicated.

Bear: That wouldn't work for me. I'm always losing my keys. And it doesn't sound like you can get another NFT cut at Timpson's either!

Bull: But why are people trading these things? Where's the value? It's not like they are a tangible asset.

Bear: That's the million-dollar question… and one that I'm not going to pretend to have the answer to either! It's big business though. L'Atelier, a BNP Paribas-owned research firm, has said that trading in NFTs hit $17.6 billion last year. That's an eye watering 21,000% increase from 2020's total of $82 million.

Bull: They're big numbers, whichever way you want to look at it.

Bear: Indeed. Anyway, there's a danger here of us getting bogged down and given that we've already admitted we're newbies and are actually learning ourselves, I think we should probably move onto the next snippet.

Bull: Fair enough. Here's my next one:

"Thanks to an enterprising graduate named Anthony Atkinson, who purchased the plot for £8,000, CBRE has become the first of the big property agents to open an outpost in the Metaverse."

Source: CBRE

Bear: Looking at the image of it, it doesn't look like much, does it? And at only 500 sq. ft, I can't see CBRE being able to fit many attendees into the seminar room when they begin running virtual seminars from Q3 2022.

Bull: Virtual seminars? I've only just worked out how to access Zoom webinars!

Bear: It will certainly be interesting to see if they get any take-up on them, especially given the fact it will take us until Q3 2022 to work out how you even enter the Metaverse! That said, for £8,000 it could be a savvy marketing ploy. Although, I'm not convinced it's any more than that at this stage.

Bull: Maybe, but I read that CBRE weren't the only firm getting in on the action. Popstars like Snoop Dog and global businesses including PwC, JP Morgan, HSBC and Samsung already have bought plots. And those who got in early have made decent returns – on paper at least. The average price for the smallest plots have increased from $1,000 to $13,000 over the last twelve months.

Bear: The plot next to Snoop Dog's virtual mansion sold for $500,000, with some plots selling for close to $2m! I'm far from convinced that it's a safe investment, but buyers are obviously hoping that the popularity will continue to increase.

Bull: I suppose you could compare it to domain names on the internet? If the Metaverse really is going to take off, then everyone will be after a parcel of land, just like they are after a website address now. Those who already own land could benefit hugely.

Bear: That sounds like it comes with a big IF though.

Bull: I agree. But look at the potential. I read that during COVID, the rapper Travis Scott performed live on an internet game called Fortnite, and more people watched that show (12.4 million) than watched the Oscars!

Bear: Imagine if you owned a parcel of land in the Metaverse right beside a concert stadium? Then you might be able to advertise your product to the millions attending. Take Wembley for example. When England play there, eighty thousand fans walk up Wembley Way. If it was a Metaverse concert, that number could be upwards of tens of millions. If I was a brand, I'd want to be seen there.

Bull: Absolutely. However, I suspect we could both be here forever, with neither of us having a real scooby about what we're talking about! I think it's probably time to call it a day. Before we do though, what's your main takeaway from all of this? Have you learnt anything?

Bear: I think so. The luddite in me is still struggling to visualise what the Metaverse might look like, but, if those numbers are true, the Metaverse could be a huge disruptor and open up a whole new world (literally!) for business and investors. And with that comes opportunity!

Bull: I agree with that. Let's hope that by the time it really kicks off, we are more prepared and knowledgeable. Did you say that Harper Dennis Hobbs were also involved?

Bear: That's what I'd heard, yes. They have launched a consultancy arm to help landlords and retailers venture into the Metaverse.

Bull: In which case I think that's where we should be heading to enhance our understanding. But before that, I need a lie down!

Bear: Me too! See you next week.

ST BRIDE'S MANAGERS

Bull and Bear

Healthcare - A Healthy Future?

Despite an on-going reluctance to accept their ageing years, Bull and Bear discuss the outlook for the UK Healthcare Property Market.

Bull: Is it me, or are our Sunday morning get-togethers coming around rather quickly at present?

Bear: I don't think so. I suspect they are still every 604,800 seconds or 10,080 minutes. I just think it's because everyone is so busy at present.

Bull: I think you're right. And boy was it heart-warming to see all the packed pubs on Thursday when I strolled across to the City.

Bear: No wonder the station car park was so empty on Friday morning! Anyway, we digress… again. I think we agreed to have a quick chat about the UK Healthcare Property Market, didn't we?

Bull: That's right. And I'm assuming you are a bit of an expert on it given your age? It can't be long now until you'll be taking up residence in one of those nice new care homes, can it?

Bear: You cheeky so and so! Although I must confess, some of the new ones being built near us don't half look nice. Long gone are the days of care homes with pokey rooms and poor facilities.

Bull: But that's where you are wrong, Bull. Yes, the new stock coming to the market ticks all the boxes, not least from an ESG perspective, but significant issues remain with much of the existing care home stock. For example, only 28% of care home beds in the UK have an ensuite bathroom with a wet room. The long and short of it is that there is a huge undersupply of quality elderly care beds.

Bear: Blimey. I didn't realise.

Bull: And, according to Knight Frank, current population and bed supply trends suggest that we are at risk of hitting capacity by the end of this decade and reaching a deficit of approximately 100,000 beds by 2040.

Bear: That's concerning. But selfishly, it won't be for at least another thirty or forty years that we will need a care home, so I'm sure everything will have been sorted out by then!

Bull: Thirty or forty years? More like three of four I suspect! But the demographic tail-winds are serious. In the UK, the population of over eighty-five year-olds is set to more than double from 1.7million to 3.7 million in 2050. And you know what that means?

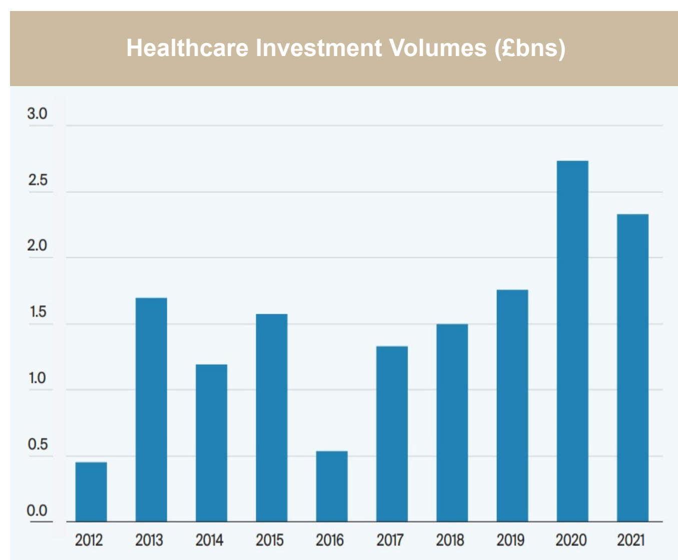
Bear: Yup. Increased demand for residential care, primary care and acute hospital services.

Bull: Exactly, making the investment case for healthcare property unbelievably compelling.

Bear: I don't think anyone would argue against that based on the demographic story. It's a well-trodden and accepted path.

Bull: Which is exactly why UK care assets continue to attract the attention of both domestic and overseas investors. Throw in the twenty-five-to-thirty-year leases with indexation and it's an investment marriage made in heaven… or more strictly, just before!

Bear: Very funny. But the UK healthcare investment volumes for 2021 didn't show that, did they? Whilst it was another strong year, transaction volumes recorded of £2.34 billion were actually lower than the £2.74 billion transacted in 2020. That's a 15% fall year-on-year, if my arithmetic is correct.



Source: Property Data

Bull: But what you have failed to mention is that the 2021 healthcare volumes were, in fact, the second highest total ever recorded. The healthcare sector is still very much on investors' shopping lists and not just domestic ones. Over 50% came from overseas investors.

Bear: But the sector only accounts for around 4% of all commercial property transactions, doesn't it? And remember, total commercial property volumes reached £57 billion last year, showing a whopping 40% increase on 2020. When overall investment volumes rocketed up, healthcare volumes actually fell. You can't deny that's not a bit odd!

Bull: Counter-intuitive yes. Odd, not really, especially given that the supply of new investment opportunities has been subdued. For obvious reasons, healthcare operators have been focused on getting their existing homes back up to normal occupancy and profitability levels before bringing them to the market. And, according to Target Fund Managers, there has also been a re-focussing of efforts on developing new homes timed to come on stream in line with the COVID recovery.

ST BRIDE'S MANAGERS

Bull and Bear

Healthcare - A Healthy Future?

Bear: That all makes sense. We shouldn't forget just how tough a time care homes have had over the last couple of years. The pictures on the TV were truly harrowing, weren't they? It was such a traumatic time for the sector and for all those working in it.

Bull: Absolutely. So it comes as no great surprise that staffing is now such a big issue for the sector. A shortage of personnel up and down the land means that many homes simply cannot admit new patients, even if they had the capacity to do so.

Bear: That's another item for Boris and his colleagues to sort out! And, it's not just staffing numbers that's giving operators sleepless nights either. Inflationary pressures on food and utility costs will also be felt acutely by them.

Bull: Which makes it all the more important that investors get their underwriting spot-on when they are looking at new opportunities. The on-going pressures are bound to make their way onto the operators' P&Ls. Key metrics, such as rent cover levels, need to be even more seriously scrutinised.

Bear: Especially if investors are asked to pay a yield keener than 4.00%! The healthcare investment market is certainly sharply priced at present.

Bull: But isn't every sector? Anyway, many of the investors surveyed by Knight Frank for their latest healthcare research felt that there was still ample opportunity to find value… just maybe not at the prime, new-build end of the market.

Bear: Ample opportunity? Uhmm.

Bull: That's what the report says. And, if you look at CBRE's latest yield monitor (April 2022), whilst there has not been any yield compression for primary care assets, hospitals or care homes over the last six months, the trend for yields is stated to be 'stronger'.

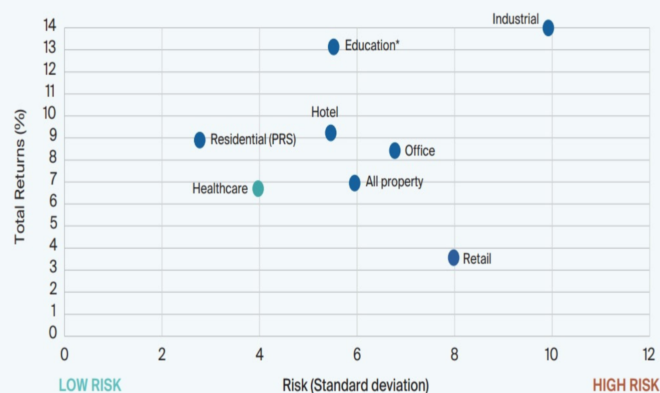
Bear: That may well be the case, but doesn't the lack of yield compression, coupled with the relatively low-income return, mean that total returns from the healthcare sector have been materially less than many of the other more traditional property sectors?

Bull: Looking at 2021, that was certainly the case, yes. There were several sectors, such as industrials, which delivered higher returns than healthcare's 9.50%. However, this level sits comfortably in line with healthcare's long-term average… and that has definitely not been the case with all the other property sectors, has it?

Bear: So, what we are really talking about here is consistent returns, aren't we? Lower risk but, as a consequence, a rather lower level of return.

Bull: I suppose so. But remind me what's wrong with that? Aren't long leases with index-linked rent reviews exactly what investors crave at present? Especially when the income stream frequently comprises a significant chunk of government funding.

Risk vs Returns, 10-Year History



Source: MSCI

Bear: Indeed they are. But we can't just sit here and forget about the impact that COVID has had on the sector.

Bull: We haven't though, have we?

Bear: We haven't, but I'm concerned that some investors can't see beyond the long lease. The sector really requires a deep local knowledge of operators, markets and the ever-evolving regulatory environment.

Bull: Totally agreed. And investors should also be mindful that there is a significant amount of private equity capital within the market, especially in the adult care space. The vast majority of the top ten operators have some element of private equity involvement. Anyway, all the vibes you've been giving off Bear, tell me that you have been sceptical of the healthcare sector when deploying your vast wealth.

Bear: Vast wealth? Yeah right! Anyway, that's not the case at all. If the right opportunity arose, of course I would look at it… carefully. And that's my key point. Tread with care… no pun intended.

Bull: Yeah right.

Bear: I can fully accept that the demographic story is compelling. And yes, there is a plethora of investors searching for opportunities which will keep investment yields low. But whether we like it or no, there are still some significant headwinds out there that investors must be mindful of. It's not all plain sailing.

Bull: I never said it was! Anyway, our time slot is up. And as much as we might fancy it, we can't spend the whole of the Bank Holiday weekend in the pub! Let's head off and reconvene at the same time next week.

Bear: I look forward to it. Have a good Bank Holiday weekend.

Property - A Compelling Outlook

Bear is being particularly bearish this week, but Bull has some even more compelling arguments for why property should continue to deliver strong performance.

Bull: What's your problem now?

Bear: I am really unhappy. I have lost my lucky socks.

Bull: What?

Bear: No. I am serious. As tomorrow is National Lost Sock Memorial Day, I deliberately put them down somewhere safe. But, for the life of me, I now can't find them anywhere. It's a bad omen!

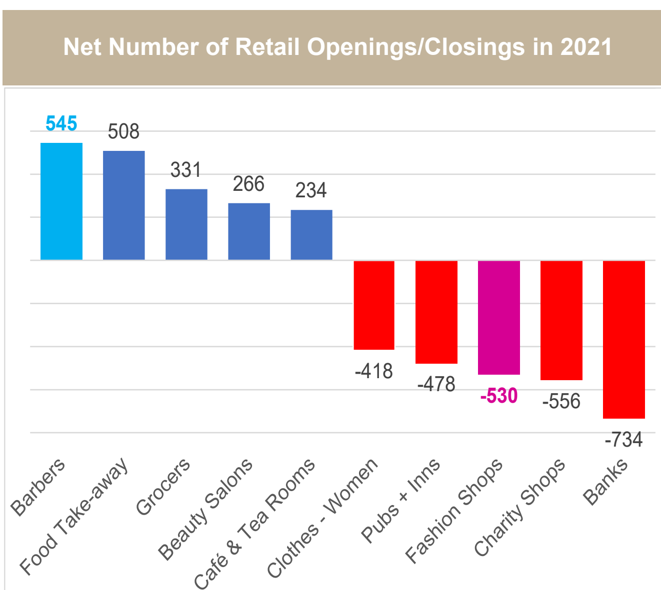
Bull: For Heaven's sake, Bear. Get a grip.

Bear: How can I when I feel that everything is going to pot. Having survived the COVID storm, the economy is now stuttering, inflation is sky-high, the Bank of England has hiked interest rates, the local elections on Thursday demonstrated, yet again, political apathy … and now, on top of it all off, I have lost my socks!

Bull: Just go and buy some new ones then.

Bear: I would if I could, but I can't. All my favourite local fashion shops have closed down. You just have to look at the latest Local Data Company survey to see how depressing it all is.

Bull: Cheer up. Even if you can't find anywhere that sells bear-size socks, you can always treat yourself to a smart haircut.



Source: Local Data Company

Bear: Even that may not be possible soon. My local barber tells me that he is lucky to get half his regular number of customers in on a Monday or a Friday. If people continue to only come into the office three days a week, there is no way that he, and hundreds of other office-related retailers, will survive. This feels like the start of a death spiral to me.

Bull: Well, not if the partners at City law firm, Stephenson Harwood, have anything to do with it. They have thrown a bloomin' great rock in the pond by telling their staff that they must work in the office for at least 60% of the year or face up to a 20% 'haircut' in their pay.

Bear: And I bet they won't be the last to do this. Even so, with all these nasty economic headwinds, retail sales are slowing down again. They came off 1.4% in March alone. And GDP growth was just 0.1% in February. At this rate, we will be lucky to avoid tipping into recession. And the fall in sterling over the past two months, from $1.35 to $1.23, is only going to exacerbate the situation.

Bull: How so?

Bear: Because we import a great deal of stuff priced in dollars, not least oil and wheat. Since the start of the year, crude oil has rocketed from $74 per barrel to $110 and wheat is up from $7.75 to $10.85 per bushel. With the fall in sterling, imports are going to be even more expensive!

Bull: Stop! Stop! Stop! Stop flashing around all these doomsday figures. Try looking on the bright side for once. Hear me out!

Firstly, according to ONS, the seasonally adjusted unemployment rate is 3.8%. That's the lowest level since 1974. So at least people are in work.

Secondly, the Bank of England has replaced Quantitative Easing (QE) with Quantitative Tightening (QT). The peak has now been reduced from £895 billion to £867 billion as the Bank chose not to reinvest the proceeds of a maturing gilt in March. It may be a small step, but The Old Lady had to start somewhere.

Thirdly, now that 10-year gilts have risen from 0.97% (at the start of the year) to 2.00%, building societies and banks are just beginning to offer better savings rates.

And lastly, online shopping has fallen dramatically over the last few months. In January 2021, it represented 37.8% of all retail sales. It is now down to 26.1%... and still falling.

You see, Bear. It is not all bad news. And with the MSCI All Property Total Return for 2021 at 16.5%, it is in fact, happy days.

Bear: You are as blind as a bat, Bull. You really are. Surely you can see that bad news-stories are springing up every day. For instance, I don't like the way that the REIT/Property Company sector has reacted to Amazon's recent profit warning. Industrials have been the saviour of the property sector for several years now, but two of the UK's largest listed warehouse operators, Segro and Tritax Big Box, saw their shares fall by 17.4% and 16.3% respectively over the past week.

Bull: So what? You know that the stock market is always jumping up and down. It's like they have ants in their pants.

ST BRIDE'S MANAGERS

Bull and Bear

Property - A Compelling Outlook

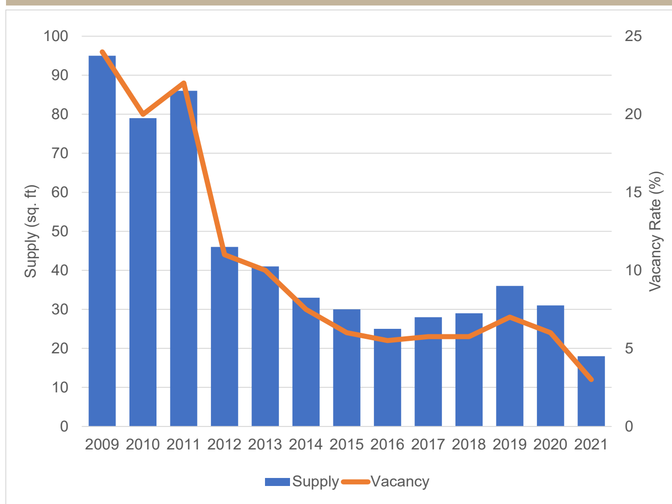
Bear: Yes, but Amazon accounted for about a quarter of all new warehouse demand over the past couple of years and in Q1 2022, they accounted for only 3%. And I read somewhere that around 27 million sq.ft of big sheds are being developed this year.

Bull: Relax. Amazon is not the only cookie in the jar. Last year over 40 million sq. ft. was taken up by non-Amazon companies. And now, with every operator trying to find a way to circumvent supply chain difficulties, they are ramping up their inventory... and that means they need to find more warehousing space.

Bear: And I need to find my lucky socks.

Bull: Just shut up about your smelly socks. If you look at the bar chart below, you will see that there really is nothing to worry about. According to Savills, demand this year for large sheds is likely to be broadly in line with 2020-21 at around 50 million sq. ft. And just look how the supply has been diminishing. Trust me, there is still plenty to play for in the industrial sector. Not least because rental values are still rising.

Supply and Vacancy Rates of Big Sheds



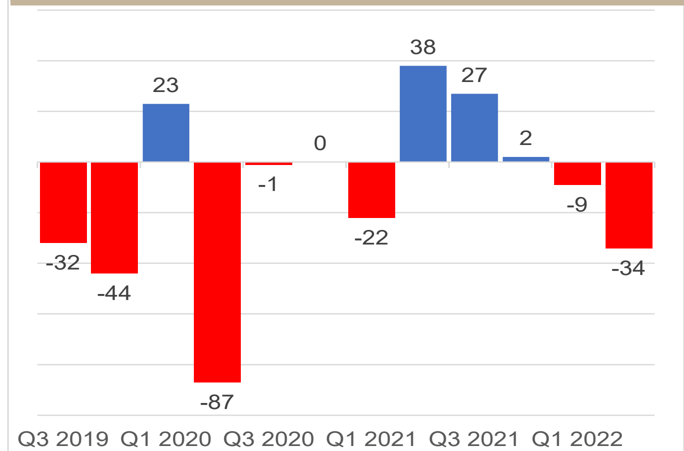
Source: Savills

Bear: Trust you? Are you kidding? Can't you feel the tension? Political scandals everywhere, Ukraine, passport hold-ups, supply-chain problems etc. It is all getting pretty ugly.

Bull: Fear not, Bear. It all about the 'feel-good factor'. And house price growth is still playing a big part in that. And, notwithstanding higher mortgage costs, both Hometrack and Zoopla reckon that prices will rise at least another 3% to 4% this year.

Bear: Sentiment? Fear? That is exactly why I am worried. Business sentiment is falling like a stone. Just look at the latest CBI Business Confidence Index. It hasn't been as bad as this since the depths of the COVID crisis.

UK Business Confidence Index



Source: CBI, May 2022

Bull: I can see where you are coming from, but you have overlooked one absolutely fundamental point. Property is a *real* asset. And investors love real assets during times of uncertainty. Please try and forget about your darned lost socks for a moment and consider the following:

• Holding cash at present is bonkers. Its value is being destroyed by inflation.

• Bond yields have already doubled since the start of the year. Just think about what that means for a moment. The capital value has halved! It would take a brave investor to think that yields will not drift out further.

• Equities are well … equities. Normally the markets wouldn't move much more than about 1% in a day. But on the hint of bad news, they get spooked. Segro's share price fall is a good example.

• Tenants are paying their rents again and property is still delivering a comparatively handsome income return.

• Most of all though, the rising wall of money (domestic and overseas) chasing real assets will almost certainly stoke further yield compression.

Which is why I believe that the IPF Consensus All Property Total Return Forecast (February 2022) of 8.6% for the year will prove to be under-cooked … not least because according to CBRE, the total return for Q1 2022 was 5.1%.

Bear: So, what are you saying? Property is the least bad sector?

Bull: No. What I am saying is that property is the best sector.

Bear: You know what Bull. I might be more amenable to your argument if my feet weren't so cold and I wasn't scuffing my claws all the time.

Property - A Compelling Outlook

Bull: I might have a solution for that. Are these what you are looking for?

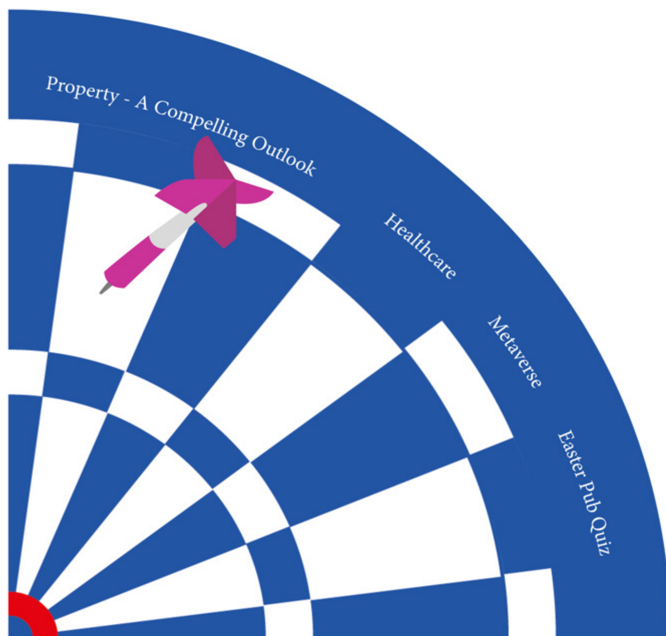
Bear: BULL!!! What the HECK!!? You are wearing MY lucky socks. No wonder I couldn't find them. Give them back IMMEDIATELY.

Bull: C'mon. Lighten up.

Bear: Call yourself a friend?

Bull: The best. So, does this mean your view on property will now be rather less gloomy?

Bear: You bet it does!



ST BRIDE'S MANAGERS

Bull and Bear

Tech Cities - Looking to the future

On the back of strong property performance over the last 12 months, Bull and Bear consider whether investing into cities with the best "Tech" credentials could give investors a competitive advantage.

Bear: Gosh, am I glad to find you at our favourite watering-hole, my dear Bull. I've been tossing and turning all night, but I just don't know which way it's going to go?

Bull: You mean in the "Wagatha Christie" libel trial? Well, I can tell you that I am firmly in Coleen's camp. From all the evidence I've heard, Rebekah Vardy was habitually leaking stories to the Sun newspaper. And now she's trying to pin all the blame on her former agent just to save her own skin! It's outrageous.

Bear: So that's where you've been on your lunch breaks all week, Bull. You've been popping down to the Royal Courts of Justice hoping to get a glimpse of a famous WAG or the ex-England football captain.

Bull: Err…well…possibly.

Bear: No, Bull. For the record, I haven't got the slightest interest in what Coleen or Rebekah get up to on Instagram. Or any other social media for that matter. I was instead referring to the stark contrast between the pessimistic macro-economic outlook and the exceptional returns that property keeps delivering.

Bull: "Exceptional returns"? That's rather effusive language from you, Bear.

Bear: I know, but the figures sort of speak for themselves. I tuned into watch the latest MSCI Quarterly briefing this week and 2022 got off to an even stronger start than we expected. All Property delivered a total return of 4.8% for Q1, with rental value growth and yield compression driving those returns.

Bull: And, if we are playing the stats game, the MSCI Quarterly Index has just delivered its highest twelve-month total return in over a decade. A rather healthy 19.9% per annum! You should be sleeping like a baby on those results Bear.

Bear: True, I should be feeling a bit more bullish. It just feels like those headwinds we discussed last week are blowing ever stronger. Economists are now talking about the risk of a recession in the second half of 2022 and even the Bank of England has openly warned of a "sharp economic slowdown".

Bull: Have you lost your lucky socks again, Bear? We went through all this last week. And the MSCI Index results only make my compelling case for property look even stronger. Real estate has not only outperformed equities and bonds over the last 12 months, it's outperformed them over the last 3-year, 5-year and 10-year timeframes too.

Bear: That's true. And I suppose those 12-month figures don't even take into account the recent volatility in the equities market. The FTSE dived 1.6% on Thursday amid last week's recession fears. And as for the cryptocurrencies, I am glad I didn't hop onto that particular investment roller coaster.

Bull: Agreed, my old ticker couldn't take the gyrations. Tether, the "stablecoin" that acts as gateway to the crypto universe, has certainly given the term a whole new meaning.

Bear: Okay. But, if property is going to see us through some economic turbulence, was there anything in MSCI's results that will help us focus our investment strategy?

Bull: Well, it will come as no surprise to you that there has been a close correlation between the funds' percentage allocations to the industrial sector and their performance.

Bear: That's a given, Bull. South-East industrials delivered a 43.6% total return over the last 12 months. It's going to help.

Bull: Exactly, but what I found most intriguing was that sector returns really do vary city by city. Bristol and Birmingham, for example, delivered the strongest 12 month returns.

Bear: Birmingham? Really? Old Brum certainly isn't on St Bride's "Key Cities" short-list. Are you sure you've got that right?

Bull: Don't be so disparaging, Bear. I'd point out that Aston Villa's new permanent signing, Phillipe Coutinho, has just swapped the sun-drenched beaches of Barcelona for the delights of Birmingham's Victoria Square, Bullring shopping centre and the Balti Triangle.

Bear: Nothing to do with the huge pay cheque then?

Bull: Ever the cynic, Bear. But in all seriousness, the strengths and weaknesses of individual cities and centres has always been at the heart of St Bride's real estate strategies, which is why Birmingham's performance stands out.

Bear: Well, what's going on then, Bull? If I recall correctly, Birmingham has historically scored rather poorly on metrics such as unemployment, business density and the percentage of jobs in Finance and Business Services; the two key growth sectors.

Bull: It does. But CBRE's recent "UK Tech Cities" report might help us shine some light here?

Bear: How so?

Bull: Well, for starters, Birmingham is ranked 2nd in their list of Top UK Tech destinations, outside of London, and it is the most notable mover in this year's ranking.

Bear: That does surprise me. What's driving that then?

Bull: Several things. But the high quality of Computer Science degrees offered by the City's three universities has increased Birmingham's popularity amongst the younger generations. The proportion of Millenials and the younger Gen Zs (also known as Tech natives) is high! And they are the one's who'll be shaping the future of the workplace.

Tech Cities - Looking to the future

Bear: Which is great, Bull, if the job opportunities are there.

Bull: And that's where Birmingham's link to the gaming sector is coming up trumps, Bear. The gaming sector has a long and established history in Birmingham and the wider West Midlands area. Leamington Spa, for example, has become known as "Silicon Spa" and is home to 10% of the UK's gaming sector employees.

Bear: Wow. That's a remarkable statistic. So, what about the rest of the "Tech" list, is there much cross over with St Bride's Key Cities top ten?

Bull: Yes. Edinburgh, Bristol, Leeds, Oxford, and Manchester all feature on CBRE's list, so there's a significant amount of cross over. Interestingly, Manchester comes out on top for the third year in a row.

CBRE's Top UK Tech Destinations (Mar-22)

Rank	City	Movement
#1	Manchester	
#2	Birmingham	
#3	Glasgow	
4	Reading	↑
5	Edinburgh	↓
6	Bristol	↑
7	Newcastle	↑
8	Leeds	↓
9	Oxford	↓
10	Sheffield	↑

Source: CBRE Research

Bear: What's Manchester's secret then? Are they all gamers too?

Bull: No, Manchester's tech appeal is rather broader than that. The size of the office market and the access to a high-quality workforce underpin its position. And it boasts 5,725 tech companies, the highest of any regional city.

Bear: That's going some.

Bull: Plus, Manchester's tech scene spans many sub-sectors of the industry. The BBC's decision to move to MediaCityUK in 2011 was hugely significant and online retail is another particularly active sector in the city. Remember, Boohoo.com? That was a Manchester-based start-up and there are plenty of other examples too.

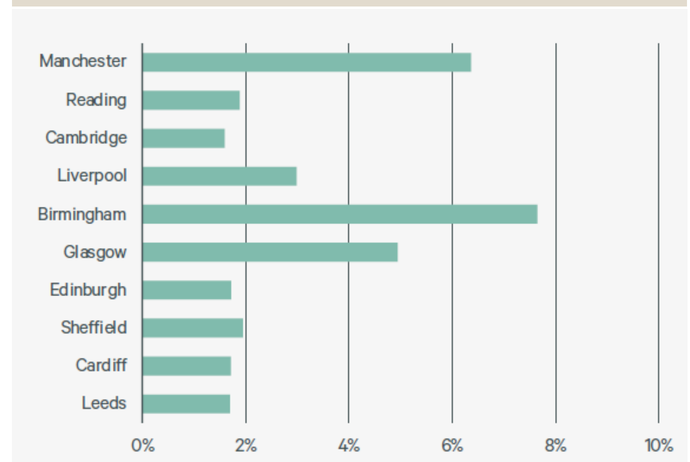
Bear: It's no surprise that Oxford features on the list but is there a reason why Cambridge doesn't feature too. I'd have had Cambridge down as an absolute banker.

Bull: Cambridge is ranked 13th, but it's worth noting that in the first edition of the CBRE Tech ranking in 2017 it didn't even make the top 25. CBRE admit that the intervening years have been transformative, and I'd bet my bottom dollar it will feature in the top ten within the next five years.

Bear: I agree. Cambridge's transformation has been nothing short of meteoric. The close correlation between CBRE's list of top Tech cities and St Bride's Managers Key Cities for long term investment is reassuring. But does being a "tech city" really matter?

Bull: Absolutely, Bear. The tech sector already accounts for 7% of total economic output. What's more, over the next five years, the tech sector is forecast to grow faster than the UK economy overall. There's a huge amount of venture capital going into the sector and those cities with the best credentials will attract the talent, the occupiers and, ultimately, investors. And, if we come full circle, Birmingham is forecast to experience tech job growth of 7.65% over that period. Higher than any other city!

Info and Comms Outlook 2021-2025 (forecast % jobs increase)



Source: ONS

Bear: Interesting stuff, Bull. It certainly looks as though the "UK Tech Cities" index will act as good barometer of future growth potential.

Bull: Precisely, my dear Bear. Asset selection and sector weighting are fundamental. But City selection is key too.

Bear: Agreed. And it will be interesting to see who the winners and losers are when St Bride's reveal their latest Key Cities index later this summer.

Bull: Is it time for Birmingham to enter the Premier League then?

Bear: Not judging by the performance of their football team this season! Although that may depend on whether you are a Birmingham City, or an Aston Villa fan!

ST BRIDE’S MANAGERS

Bull and Bear

The Crown's (Property) Jewels

Bull has begun his Jubilee celebrations early, whilst Bear, as usual, attempts to keep him on track by taking a look at the Crown's (Property) Jewels.

Bull: Did you see the Queen on the telly last Sunday? It was a brilliant show to start off her Platinum Jubilee celebrations. Seventy years. Wow!

Bear: Is that why you’re on the champagne and not your usual ale?

Bull: Could be. You know me - any excuse for a bit of fizz. Anyway, I can’t hang around too long today as I still have a ton of things to organise ahead of our Bank Holiday street party. I am a bit concerned however, that some of my mates may find it a bit difficult getting here. In true TfL style, they’re due to stage a London Underground strike over those days!

Bear: Typical! Still, I doubt that the Crown Estate will have much time to complain, as I suspect they’ll be hard at work preparing their 2021/22 Annual Report which is due to be released in the last week of June. I am sure they will want to keep a beaming smile on the Queen’s face.

Bull: Ah yes, that will be an interesting one. Their portfolio was valued at £14.4 billion last year, up from £13.4 billion in 2019/20 (7.5% annual increase).

Bear: Yes - but do you know what the estate comprises?

Bull: Well, obviously a large portion of Central London retail and the Royal Palaces.

Bear: That is where you are wrong, my dear Bull. Central London – yes. The Crown Estate is one of the West End’s largest property owners, comprising Regent Street and around half of St James’s. 10m sq. ft. of offices, retail, leisure and residential. You name it, they have it! But you’re wrong about the Royal Palaces. They are held in trust for future generations and neither belong to the Crown Estate, nor technically, the Royal Family.

Bull: Oooh! Someone has been reading up, haven’t they?

Bear: Yes. Moreover, it has been reported that the Crown has a £1 billion Central London development pipeline, with the potential to deliver 850,000 sq. ft. of space over the next five years!

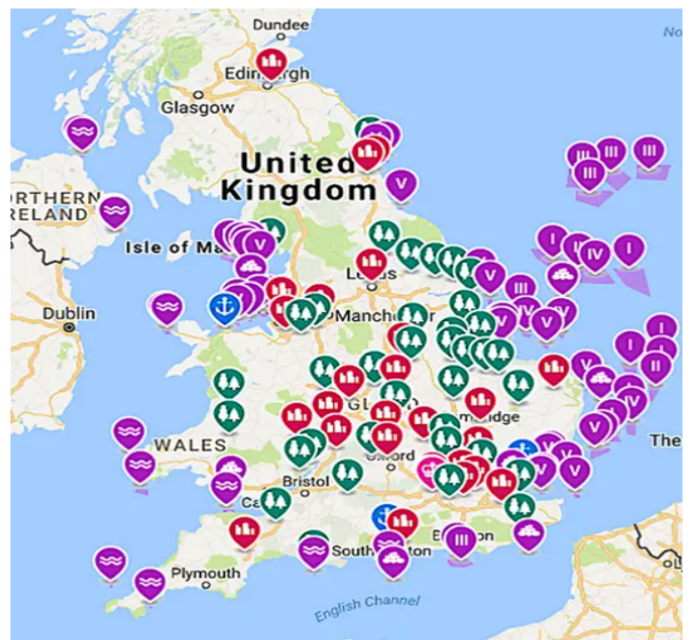
Bull: So, they aren’t twiddling their thumbs then?

Bear: Absolutely not. If that doesn’t keep them busy enough, there’s the 16,000 acre Windsor Estate alongside 125,000 acres of farmland across England, and a further 50,000 acres of upland. Not to mention, of course, the regional portfolio of retail, leisure, industrial and business parks and the seabed!

Bull: The seabed?!

Bear: Yes, the Crown Estate owns virtually all the seabed around the UK, out to twelve nautical miles! The map opposite gives you a sense of the scale of their portfolio. The pink is commercial, the purple is energy and minerals, and the green is rural and forestry.

The Crown Estate's Asset Map



Source: The Crown Estate

Bull: Wow! The Queen would certainly rack up a few miles in her Land Rover if she tried to visit all of those holdings. And on that front, did you know…

Bear: Go on…

Bull: … that the Queen has never taken her driving test? She is the only person in the UK that is legally allowed to drive without a licence. After all, they are issued in her name!

Bear: Do you want to hear about the Crown Estate or not?

Bull: Okay. I can see that the portfolio is intriguing on paper but how is it performing?

Bear: We won’t know, of course, until the 2021/22 annual performance numbers are released in June. But if last year’s returns are anything to go by, they should do rather well. The twelve-month total return (until March 31) for 2020-2021 was 11.9%.

Bull: That doesn’t sound like a particularly strong performance judging by the MSCI’s benchmark results we discussed last week.

Bear: C’mon dimwit. Surely you can recall that the results for 2020-2021, during the height of COVID-19, were terrible. The MSCI All Property Total Return was a very measly 0.9% pa.

The Crown's (Property) Jewels

Bull: That means that the Crown Estate comprehensively outperformed the benchmark!

Bear: Yes, and it also acts as a stark reminder as to how much things can change over a year. Don't forget MSCI's twelve-month total return up until March 31 2022 was 19.9%!

The Crown Estate's Financial Performance 2020 - 2021 (YE 31st March)

Net-revenue profit	£269.3m
Total property value	£14.4bn
Net assets	£15.2bn
12-month total return	11.9% (vs MSCI benchmark of 0.9%)
3-year annualised rolling total return	6.0% (vs MSCI benchmark of 1.5%)

Source: The Crown Estate

Bull: I'm rather surprised by that overperformance. Surely their Central London retail allocation would have dragged down the numbers?

Bear: Yes, but they had a windfall (excuse the pun). According to their Annual Report, they:

'Attributed a value to Round 4 (of the offshore wind bidding process) for the first time this year, which caused our capital value to increase at a time when commercial property values have been falling.'

Without it, the twelve-month total return would have been -3.2%. That's much closer to the MSCI benchmark.

Bull: That makes more sense!

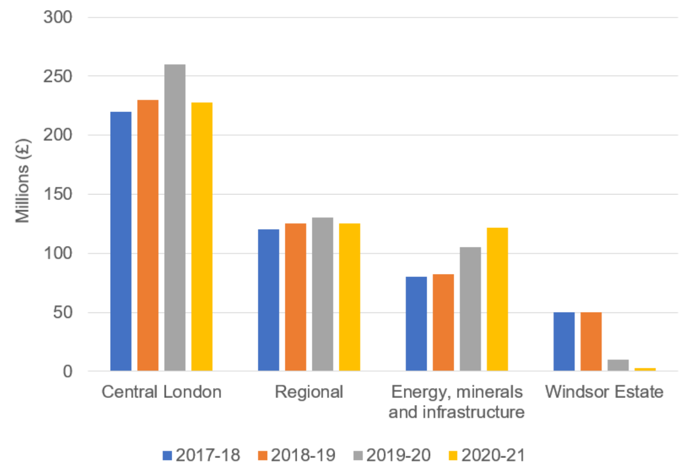
Bear: It does. However the seabed leasing programme for wind and wave farms is becoming ever more prominent within their portfolio, attracting bids from energy companies such as BP. Just look at the chart opposite. Although a large majority of their revenue still comes from Central London, it's clear that income growth is increasingly being driven through the energy and mineral sectors.

Bull: Given what is happening to energy prices right now, that is interesting. How much is their latest round of offshore leasing worth?

Bear: Supposedly it could deliver a further 8GW of offshore wind power for six new offshore wind farms. And with the Crown Estate earning £110,000 per megawatt per year, I'll let you work out how much that could be worth.

Bull: With a bit of rounding, my maths takes that to nearly £900m a year. £9bn over a decade!

The Crown Estate's Revenue by Portfolio 2020 - 2021 (Year Ending 31 March)



Source: The Crown Estate

Bear: Exactly. Clever boy! Moreover, that's enough clean electricity to power seven million homes. Not a bad effort! And whilst I'm on a roll, here's another one for you.

Bull: Go on.

Bear: In 2011, UK offshore wind generated enough electricity to supply the needs of just 4% of UK homes. Ten years on, that figure rose to 33% and is continuing to grow year-on-year. The Crown Estate has to take credit for that.

Bull: It most certainly should. And since we are on the subject of sustainability, I have one for you. Did you know that Prince Charles's Aston Martin runs on 'surplus English white wine and whey from the cheese process'?

Bear: I didn't, but, given the hike in oil prices, it probably works out a lot cheaper than petrol! Provided, of course, he drives care-philly!

Bull: I think those bubbles are going to your head. Drink up. It's time to get out in the sunshine again and top up our vitamin D.

Bear: Sounds good. Anyway, let's hope that the Crown Estate's net revenue profits remain high for 2021/22. After all, 100% of it goes to the Treasury … for the benefit of the nation.

Bull: Yes. But no doubt after the cost of a few department beers and party hats have been accounted for.

ST BRIDE'S MANAGERS

Bull and Bear

Elizabeth Line - Worth the wait?

Following the long-awaited arrival of the new Elizabeth Line, Bull and Bear discuss the project and its impact on property values along the route.

Bull: Top of the morning to you, Bear.

Bear: And to you, Bull. So, how come you are so full of beans this morning?

Bull: It's been a great week and I'm still riding the wave. It started with the mighty Spurs confirming their Champions League qualification, Rishi then got his wallet out to try and tackle the cost-of-living crisis and looking forward, next week is only a three-day working week.

Bear: And there's me thinking you were going to mention the opening of the Elizabeth Line. Everyone knows how much you like train spotting on Platform 2 at Clapham Junction watching the inter-city trains whizz through.

Bull: Shush Bear! I told you about that in the strictest of confidence. The platforms are already busy enough, what with folk returning to work. We don't want anyone else joining us and blocking our views!

Bear: So, were you amongst the crowds at Abbey Wood or at Paddington on Tuesday morning? It looked like there were thousands of people there wanting to catch the first ever Elizabeth Line train.

Bull: Sadly, I wasn't able to join them. But I'm certainly planning a journey soon. From what I've heard, it's amazing. Totally transformational for London.

Bear: Well, they've had enough time to get it right, haven't they? If I remember rightly, wasn't the idea first conceived back in the 1980s? It was then cancelled in the 1990s, given Royal Ascent in 2007, with works finally starting in 2009. And even then, it's opened three and a half years late. That's a lengthy wait!

Bull: No-one can hide behind the delays, but it has been one of Europe's largest construction projects. Alone, they've delivered 42km of tunnels. The project's complexity was off the scale.

Bear: Apparently so. Integrating multiple signalling systems and new software posed them huge challenges. But their biggest problem was that they were overly optimistic when it came to announcing the likely opening date. December 2018 was never ever realistic.

Bull: That may be true, but it's now time to look forward, rather than dwell on the past.

Bear: How can you say that so flippantly given the enormous cost overrun? The final cost is estimated to be £19 billion. That's twice the cost of hosting the Olympic Games! If you cast your mind back, Crossrail was originally budgeted to cost £14.8 billion. That's a mighty overspend… by anyone's measure.

Bull: Yes, yes. But the opening marks the beginning of a new era for London transport. The project's numbers are staggering, and not just from a financial perspective! Journey times will be dramatically reduced, cut as much as half between Abbey Wood and Paddington. A journey from Farringdon to Canary Wharf will be fourteen minutes quicker too, down to just ten minutes!

Bear: I don't doubt all that, but the line is not even fully operational yet. For example, there's still no Sunday service. Furthermore, Bond Street station will not open until later this year, and it won't be until May next year that passengers will be able to travel directly from one end of the line to the other.

Elizabeth Line – Remaining Opening Stages

1 **24 May** Paddington to Abbey Wood

2 **Autumn 2022** Continuous East to West services

3 **May 2023** Final timetable introduced

Source: Crossrail, 2022

Bull: Yeah, yeah. But when it is open, the line is expected to increase London's train capacity by 10%. Ten new stations have been built with each train carrying up to 1,500 passengers. And crucially for older folk like us, an old person's freedom pass will allow free travel after 9am on weekdays and at weekends!

Bear: For £19 billion, that's the least we should be getting. I want my own seat!

Bull: You are so damn miserable. We all know Crossrail has been a long time coming. We all know about the setbacks, the huge cost overruns, but the development of the Elizabeth Line has brought with it billions of pounds in regeneration.

Bear: Carry on.

Bull: Look at Tottenham Court Road. The area has been totally transformed. The same too for Farringdon, Bond Street, Hanover Square, not to mention the improvements on Oxford Street. None of this would have happened without the Elizabeth line.

Elizabeth Line - Worth the wait?

Bear: But the disruption around London has been enormous. And people won't forget that.

Bull: I beg to differ. When workers realise their commute times have been halved or their house price has rocketed on the back of the opening, they'll soon forget about a few noisy walks through Hanover Square.

Bear: So, do you really think there is the potential for further price rises? Investors have been talking about Crossrail for years. It's already been well and truly priced in, if you ask me.

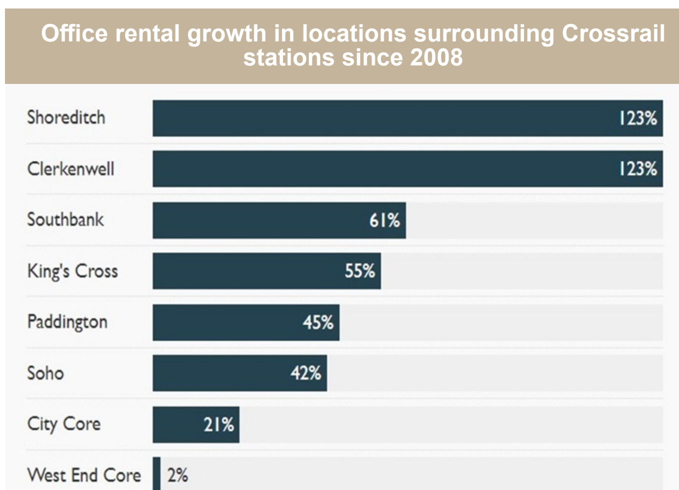
Bull: Agreed. But that doesn't mean there isn't any more value to be extracted now that the trains are finally on the move. Office rents will increase along the route now that the line is operational.

Bear: I know some locations have experienced significant rental growth in anticipation of its opening, but now that it is open, is there really more growth to come, especially when employers are having to deal with the fallout from the pandemic? I'm not convinced.

Bull: That's the question, Bear. But my gut tells me there could well still be more rental growth to come. The opening could quite easily provide a further impetus for some locations, places like Shoreditch and Clerkenwell. These locations have already seen rent increase in excess of 120% since the proposal to build Crossrail was given Royal Ascent in 2008. Prime rents in Paddington have increased 45% since 2008, compared with 21% and 2% respectively in the City and West End core markets.

Bear: Where did you read all that?

Bull: It's been all over the press this week. Cushman & Wakefield have tracked the annual rental growth in different office markets across Central London between 2008 and the present day. The data shows the building of the Elizabeth Line has helped to change the dynamic of London offices. Occupiers have been encouraged to consider new locations, whilst developers have delivered schemes in areas that they have previously ignored.



Source: Cushman & Wakefield

Bear: It's hardly rocket science though, is it? Proximity to large transport hubs is always going to be attractive, especially if the buildings deliver what the occupiers of today crave.

Bull: Exactly. So, it's hardly a surprise that at Tottenham Court Road, the office component of Derwent London's 1 Soho Place scheme is fully pre-let or that Great Portland Estates pre-let a vast percentage of its Hanover Square development. In fact, the more I think about it, the more convinced I am that the opening will have a further positive impact on the leasing markets near Crossrail stations.

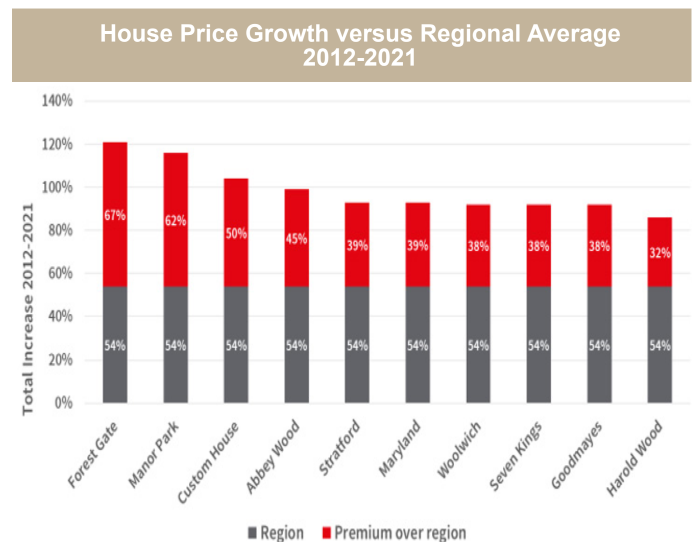
Bear: You may be right, but it's really difficult to disentangle the Crossrail effect from wider market dynamics. Anyway, I assume you will also have a positive view on the residential market on the back of the grand opening?

Bull: Yup, and I'm not alone. The Elizabeth Line has already had a transformational impact on the housing market. Research from JLL shows that since 2012:

- Average house prices surrounding 76% of stations served by the route have outperformed the regional average; and
- Markets around eighteen stations have experienced price growth of more than 70%.

Bear: So where are the locations that have fared best?

Bull: At the top of the list are properties located near Forest Gate. They have outperformed the regional average (London) over the period by a whopping 67%. Manor Park and Custom House have also performed exceptionally too. In fact, the largest premiums have typically been recorded along the eastern stretch of the line.



Source: JLL

Elizabeth Line - Worth the wait?

Bear: And what about the western stretch? How have places like Reading and Slough fared?

Bull: They've performed okay, albeit house prices by western stations have not risen as sharply relative to their local markets as prices have on the eastern side. Take Reading for example. There has been no house price premium over the regional average.

Bear: Wow. I'm rather surprised by that.

Bull: So was I. The feeling is that the western arm of the line is yet to really benefit from the 'Crossrail effect' and as such, towns along that stretch are probably the ones to watch in terms of future increases in value and demand.

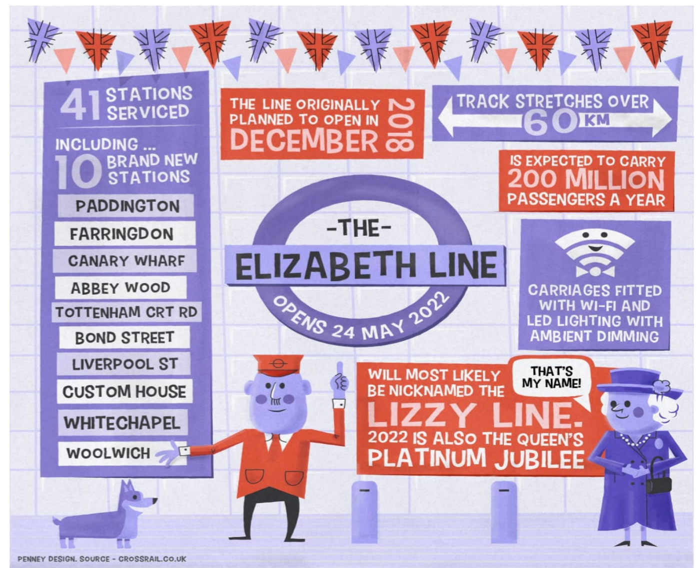
Bear: I can see that. These places will now be more attractive to commuters who want to move out of London for more space but also want to maintain a relatively short commute.

Bull: I think that's right. Understandably, lots of house buyers want to be able to see (and touch) the improvements before they move in, nor want to live on a building site. It really wouldn't surprise me if we saw a fresh group of buyers emerge and higher prices paid as a consequence now that the line is open.

Bear: Time will tell. What I will say though, is that the opening has come at a time when London really needs it.

Bull: Absolutely. At last we are agreed on something. Anyway, we've run out of time. I suspect we will just have to wait to see what the longer-term benefits will be. But, and forgive the pun, I'm bullish about Lizzie's likely impact.

Bear: Now there's a shock. Not! Enjoy the rest of your Sunday and I look forward to catching up with next Sunday.



Source: Penney Design

Drones - Ready for take off?

After witnessing the stunning, drone light show for the Queen's Jubilee celebrations, Bull and Bear discuss whether the property industry is ready to embrace the full potential of drone technology.

Bear: I see you are still wearing the same Union Jack socks that you wore for our Jubilee Street party last weekend, Bull. I hope they are freshly laundered?!

Bull: Don't fret, Bear. I bought multiple pairs! I just got so caught up in the national mood of celebration that I went slightly mad on all the memorabilia. Our kitchen is almost overflowing with new tea towels, biscuit tins, and assorted tableware, all emblazoned with iconic images of Her Majesty. I even bought a Platinum Jubilee Limited edition tea pot.

Bear: You certainly seemed in high spirits at our street party. You must have toasted the Queen at least a dozen times! So, what was your favourite moment of the weekend? I know you've always been a big Rod Stewart fan. Did you enjoy his rather unique rendition of Sweet Caroline?

Bull: I had to do a Prince Louis and put my hands over my ears for that one, Bear! But I thought Sam Ryder stole the show on Saturday singing Spaceman in his spangly Union Jack suit.

Bear: You're just jealous of his costume! But talking of Space, the iconic moment for me had to be Saturday night's spectacular light show above the Palace.

Bull: You're right, Bear! It was truly amazing. The whole sky was lit up with quintessentially British images. You couldn't help but feel patriotic seeing the Queen and her favourite Corgi depicted in lights. I am sure I even saw a tea pot in the act of pouring tea and a galloping horse. That laser technology they use these days is awfully clever.

Bear: They didn't use lasers, my dear Bull. The images you saw in the sky were created by a swarm of 400, carefully choreographed drones.

Bull: You mean to say that they put hundreds of pilotless, flying vehicles into the sky directly above Buckingham Palace? That seems rather risky.

Bear: Not these days, Bull. The drones use sophisticated location sensors and geo-fencing to prevent them crashing into one another. It's precision stuff.

Bull: Geo-fencing, Bear? What exactly is a geo-fence?

Bear: A virtual geographic boundary, Bull. In simple terms, they had electric barriers that would instruct the machines to land if they blew off course.

Bull: Gosh. That's clever.

Bear: And the Jubilee party wasn't the first time drones have been used en masse for a light show. Do you remember the 2018 Winter Olympics in Pyeongchang? The organisers used 1,218 Intel Shooting Star drones to put on a truly stunning display at the Opening Ceremony.

Bull: I remember the ceremony, Bear. I just had no idea they were using drones to create the displays. I just thought it was computer trickery, overlaying graphics on reality and beaming images to our television screens. But if these unmanned aerial vehicles are so sophisticated, why aren't we using them more widely?

Bear: That's a very good question, Bull. But the commercial use of drones is already more prevalent than you may think. And it is poised for massive expansion.

Bull: Are you sure, Bear? People have been telling me for years that Amazon will soon be delivering my groceries by drone, but you don't see many of them buzzing around our towns and cities delivering parcels. I've seen drones used to take some great wedding photographs and capture amazing footage for wildlife documentaries, but otherwise their commercial use seems pretty limited.

Bear: People get fixated on the idea of drones replacing delivery vehicles and reducing congestion on our roads. Unfortunately, the reality (at least for the time being) is rather different. It's not commercially viable yet and the number of drones required wouldn't be safe. We've also got to ask ourselves whether we are prepared to put up with thousands of drones buzzing around our cities.

Bull: So, if drones aren't going to be delivering my shopping, where else can we harness this amazing technology, especially in the property industry?

Bear: There is already widespread use of drones behind the scenes, Bull. They are being used in everything from aerial mapping and virtual tour videos for marketing, to inspecting buildings and monitoring construction sites. A drone, for example, can do a close-up roof survey without the need for a scaffold or a cherry-picker. You can see everything you need to from the ground.

Bull: That's certainly a game changer. Especially with the price of scaffolding these days! But if, as you say, the use of drones is about to explode, where do you see the other opportunities for expansion?

Bear: Real estate and construction is already a big user of commercial drones. In fact, real estate accounts for almost a quarter of the global commercial drone market. But, according to Cushman & Wakefield, one area that has lagged is the delivery and logistics sector.

Bull: Well that's definitely a sector that has embraced other technologies recently. Do you think the autonomous robots in Amazon's fulfilment centres are going to be replaced by drones?

Bear: I am not sure about replaced, Bull, but in the new world of same-day deliveries, online retailers are continuing to take steps to improve delivery times and drones may well have a role to play.

Drones - Ready for take off?

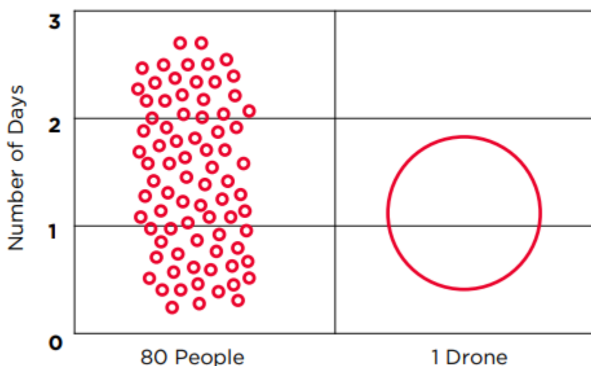
Bull: There's certainly enough space for drones to fly around some of these "big-boxes". I've noticed a strong trend for warehouses to be designed with ever larger floor to ceiling heights. Some of these warehouses are stacked so high it's hard to see what's up there. Especially with a neck like mine.

Bear: Exactly, Bull. Land constraints mean space is tight, so "big-box" tenants increasingly require larger clear ceiling heights. And, as design preferences for the new generation of warehouses evolve, there is a clear opportunity for drones to perform tasks like inventory management.

Bull: That makes sense. I imagine that a high-performance drone buzzing around the warehouse could save a lot of time on the stock counting. No need for the endless ups and downs on a forklift truck.

Bear: Precisely, Bull. Material Handling Exchange estimates that it would take approximately 80 people with handheld scanners three days to complete a typical stock count for an average uniform warehouse. One drone can complete the same job in two days.

Drones could play a vital role in inventory management for warehouses in the future



Source: Material Handling Exchange

Bull: Wow. Just think of the potential time-saving benefits that would make. Especially in a world where we've got a chronic labour supply shortage.

Bear: And that's just one example, Bull. Their potential is enormous. Which is why the $27.4bn drone market today is expected to more than double to $60bn by 2026.

Bull: Sounds like the drones are here to stay then, Bear.

Bear: They are Bull. Although I sense a note of reluctance in your voice. You're usually the first to embrace technological advancements? Do you have reservations?

Bull: I can certainly see the potential, Bear. But in eulogising the technology, we have rather neatly avoided the thorny issue of regulation. I seem to remember that back in 2018 reports of a drone flying around Gatwick airport caused the airport to shut down for two days. In the wrong hands, drones do have the capacity to cause plenty of upset.

Bear: It's a fair point, Bull. Although right at this moment the airlines seem to be struggling to get flights in the air, full stop. Pesky drones buzzing the airfield perimeter are the least of their worries.

Bull: Tell me about it. I was hoping to jet off to Mallorca for a week's sunshine in August and EasyJet have just gone and cancelled my flight.

Bear: There'd be no such staffing issues with an unmanned aerial vehicle (UAV), Bull. Although I admit you can't yet hop a drone to Mallorca! But to answer your concerns, we need to accept that there are still some challenges and limitations that need to be addressed.

Bull: Agreed.

Bear: But I wouldn't bet against them being overcome. Singapore's stated goal, for example, is to become a "Smart Nation" which includes developing regulation that allows drones to operate autonomously throughout the country, including food and mail delivery.

Bull: So, I can still dream about getting my pizza takeaway delivered by a friendly drone hovering outside my front door?

Bear: I may have a few more grey hairs around my muzzle by the time it happens, Bull. But, yes, if 400 drones can create a giant Corgi in the sky to commemorate the Queen's Platinum Jubilee, I am sure it won't be too long before they can deliver your pepperoni pizza, complete with snacks, sides and even a cold beer or two.

Bull: Now that's definitely worth dreaming about! Till the next time, old friend.

World Cities - A Happy Environment?

Bull tries to cheer up Bear using the results of the tenth edition of the St Bride's World Cities Index.

Bull: For Heaven's sake! What's your problem now?

Bear: Haven't you noticed? The world is falling apart!

Bull: What?

Bear: I am not joking. Just think about it. It's everywhere.

- Travel chaos at the airports is disrupting holidays … that is if you can get your passport issued in time.
- Petrol pump prices are buffeting £2 per litre and inflation is heading towards double digits.
- The war in Ukraine is a humanitarian catastrophe.
- Gloves are about to come off against the EU over the Northern Ireland protocol.
- Train strikes are coming this week and industrial disruption is now being threatened by airport workers, bus drivers, bin collectors, nurses, postal workers, civil servants and teachers.
- According to BDO, business confidence has collapsed to levels last seen in April 2021 when we were in the depths of the COVID pandemic.
- FTSE 100 has fallen by 5.70% over the past month.
- The pound is at a two-year low of $1.22. The economy shrank by 0.3% in April and the OECD reckons that there will be no growth whatsoever in the UK next year.
- The value of my Bitcoins has crashed by 68% since last November.
- And … After Thursday's hike, someone said that interest rates could easily reach 3%.

Bull: I can see where you are coming from Bear, but it really isn't that bad. You have to remember that the news industry thrives on dishing out negative stuff. There is plenty of good news out there too, you know.

Bear: Like what?

Bull: Like the St Bride's World Cities Index for starters … which has just been published. It is celebrating its tenth anniversary.

Bear: You are kidding me? Is that really the best you can come up with … The St Bride's World Cities Index?

Bull: Hear me out.

Bear: Go on, then. Remind me how it works? You get a whole lot of gumpf, right … mix it up a bit, and then announce that London is Number One?

Bull: That's an absolutely outrageous slur, Bear. St Bride's gather their data from twenty impeccable sources, collate and categorise it into five principal themes, and give each theme an appropriate risk weighting.

Bear: Okay! Point taken. So, what does this year's Index show?

Bull: Looking over the ten-year history, a number of trends appear to be showing through:

- London has been Number One every year since the index was first launched. It scores well across the board.
- Atlanta was relegated this year in favour of Munich, which has been a previous resident in the Top Twenty.
- There are currently seven US cities in the Top Twenty. They have all gained significant ground over their European counterparties over the past ten years.
- Geneva, which was ranked sixth in 2012, has dropped out of the top tier and is now ranked thirty-seventh.
- Hong Kong has spiralled down from second in 2012 to seventeenth place. I guess this isn't altogether that surprising given that Beijing is now bearing down on their affairs.
- Shanghai and Beijing are noticeable by their absence. They are ranked twenty-third and thirty-third respectively, dragged down by their poor constitution/rule of law scores.
- And for the record, Moscow is ranked fortieth, but in the current climate that might as well be 140th!

St Bride's World Cities Rankings			
Rank	2012	2022	Change
1	London	London	No Change
2	Hong Kong	New York	+2
3	Singapore	Singapore	No Change
4	New York	Tokyo	+3
5	Paris	Los Angeles	+8
6	Geneva	Chicago	+10
7	Tokyo	Paris	-2
8	Sydney	Sydney	No Change
9	Stockholm	Boston	+9
10	Toronto	San Francisco	+10
11	Amsterdam	Berlin	+1
12	Berlin	Washington DC	+5
13	Los Angeles	Seoul	+2
14	Munich	Melbourne	+5
15	Seoul	Amsterdam	-4
16	Chicago	Toronto	-6
17	Washington DC	Hong Kong	-15
18	Boston	Stockholm	-9
19	Melbourne	Munich	-5
20	San Francisco	Dallas	New Entrant

World Cities - A Happy Environment?

Bear: How did London score on Constitution/Rule of Law this year?

Bull: Sixteenth. Not great, but not disastrous. Well-rehearsed problems over money laundering didn't help. However, if the Government decides to extricate the UK from the European Court of Human Rights and pushes ahead with their latest plans to unilaterally change the Northern Ireland Protocol, there may be further trouble ahead.

World City Thematic Rankings		
Theme	London Rank	Top 3 Ranking Cities
Constitution / Rule of Law	16	Stockholm (1), Amsterdam (2), Copenhagen(3)
Economic Stability	2	New York (1), London (2), Tokyo (3)
Business Friendliness	4	Singapore (1), Seoul (2), New York (3)
Property Fundamentals	2	New York (1), London (2), Washington DC (3)
Desirability / Living	3	Berlin (1), Munich (2), London (3)

Source: St Bride's Managers / Brockwell Consulting

Bear: To be clear though. The St Bride's Index isn't a recommendation for investors to pour into London right now, is it?

Bull: Absolutely not. The Index is intended to be used for long-term strategy-setting. And that is all the more important given that last year, a record US$1.3 trillion of investment sloshed around the global commercial markets. That's up 55% on 2020 according to CBRE. Even so, London continues to attract money from all over the world. It is seen as one of the safest places on the planet to invest.

Bear: I know that is all good news, but it still doesn't make me feel happy!

Bull: If you really want to feel happy, you may need to live in Scandinavia. The latest UN World Happiness Report has Finland, Denmark, Iceland, Sweden and Norway all in the top ten happiest countries in the world.

Bear: But the weather is so cold and wet in those countries … and it's always dark … or always light.

Bull: Okay. How about Australia then? They are ranked twelfth.

Bear: I fancy the surfing. But it's too hot!

UN World Happiness Report 2022			
Rank	Country	Rank	Country
1	Finland	11	Austria
2	Denmark	12	Australia
3	Iceland	13	Ireland
4	Switzerland	14	Germany
5	Netherlands	15	Canada
6	Luxembourg	16	USA
7	Sweden	17	UK
8	Norway	18	Czechia
9	Israel	19	Belgium
10	New Zealand	20	France

Source: Sustainable Development Solutions Network

Bull: You are sounding just like something out of the Goldilocks fairy tale. Not too hot, not too cold. Which is why the UK is perfect for you. Four distinct seasons. Just right! And what is more, the UK is the fourth most environmentally friendly country in the world. That's another reason for you to be happy.

Bear: Really! Fourth? Now that does surprise me … on the upside, that is.

Bull: Yes. But how disheartening it is that only three of the top twenty countries are non-European? Only Japan (12), Australia (13) and New Zealand (19) get onto the top table. And, the US is a major absentee. We know that there is still a ton of work for us to do here in the UK, but we really must get the message out wider… and louder.

Most Environmentally Friendly Countries			
Rank	Country	Rank	Country
1	Denmark	11	Netherlands
2	Luxembourg	12	Japan
3	Switzerland	13	Australia
4	UK	14	Spain
5	France	15	Belgium
6	Austria	16	Ireland
7	Finland	17	Iceland
8	Sweden	18	Slovenia
9	Norway	19	New Zealand
10	Germany	20	Italy

Source: World Population Review 2022

World Cities - A Happy Environment?

Bear: To be fair Bull, you have cheered me up a little bit, but all this long-term stuff doesn't really resolve our current challenges, does it? You surely must have some concerns, don't you?

Bull: I am pretty laid back about it, to be honest, although I am rather uncomfortable about construction cost inflation. We can't really afford to see a slowdown in development. And I have heard anecdotal evidence that some global players are just holding off a touch at present until pricing and supply chains settle down.

Bear: And the rise in bond yields?

Bull: Hmm! That's a fair point. Ten-year gilts have risen from 0.97% to 2.50% since the start of the year. Some pundits are suggesting that property yields will soften off the back of this, but I just don't think so. With equities and bonds bashing around as they are, and the value of cash being eroded by inflation, real assets like property and infrastructure, surely should be the asset classes of choice.

Bear: Come on Bull. I still need a pick-me-up.

Bull: Okay. This will definitely put you in a better place! I know it is tinged with sadness, but even so, close your eyes and just recall the magic of this commentary:

''Phil Bennett covering, chased by Alistair Scown, Brilliant! Oh, that's brilliant. John Williams, Brian Williams, Pullin, John Dawes, Great Dummy! David, Tom David, the halfway line, Brilliant by Quinnell. This is Gareth Edwards. A dramatic start. What a score!" Oh, that fellow Edwards." Cliff Morgan, January 1973. Barbarians versus New Zealand.

Bear: Yes. Brilliant. Thank you. Just what the doctor ordered.

Bull: Enjoy your Sunday.

Leisure - Play Time?

After a week stuck at home due to train strikes, Bull and Bear meet up in their usual pub to discuss the hospitality sector and explore whether it should be on investors' buy-lists.

Bear: So, then Bull. How are you feeling after a week stuck at home? It rather reminded me of May 2020, albeit without the Thursday night hand clapping, toilet roll shortage and one hour's exercise limit.

Bull: I've rather enjoyed it, to be honest. Don't get be wrong. I'm still a huge advocate of working in the office, but knowing that it would be virtually impossible for me to get in, I got my head around it and have managed just fine. I even got a cheeky nine holes in after work on Wednesday.

Bear: I agree. It seems like it was pretty much business as usual for many of us. It's hardly surprising though, is it? The pandemic has meant that so many businesses are now geared up for remote working. According to official figures, 38% of workers now spend at least some of the week working from home anyway.

Bull: It was a lot more than that this week, of course! According to Freespace, office occupancy across the UK on Tuesday was just 22%, compared to 40% the same day last week. Furthermore, high street footfall was 16.1% lower at lunchtime on Thursday compared with the same day last week. And in Central London, the reductions were more than double the national average.

Bear: It's no wonder then, is it, that the UK hospitality industry is up in arms? I read somewhere that together, the three days of strikes will have cost the sector £540m, based on a 20% fall in sales. A typical June week sees national takings of £2.75bn.

Bull: Blimey. That's brutal.

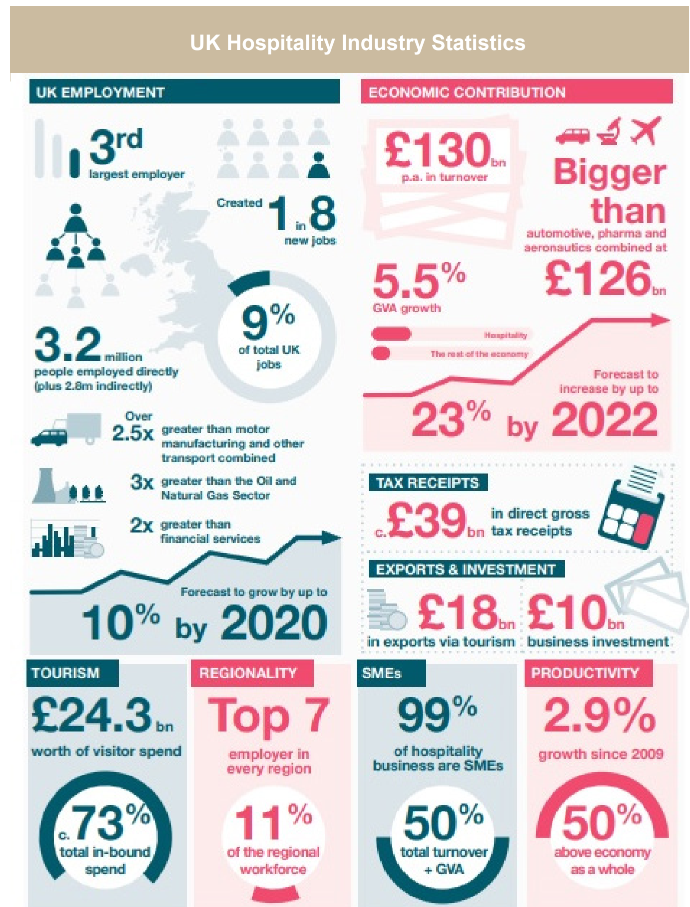
Bear: Indeed, especially for a sector which is already synonymous with fragility.

Bull: To be honest, I've rather lost track of how the hospitality sector is fairing. Everyone knows about the devastation experienced during the pandemic. But I was under the impression that many operators were now benefiting from a post-COVID bounce?

Bear: Some parts of the sector are doing okay, but many venues are really struggling to keep their doors open. Escalating inflation, soaring energy costs, supply-chain issues, not to mention staffing shortages have left parts of the sector on its knees. And remember, the hospitality sector represents 10% of UK employment, 6% of businesses and 5% of UK GDP.

Bull: Crickey. I knew we liked to enjoy ourselves, but I had no idea the sector was that important to the UK economy.

Bear: Yes. Hospitality is the third largest private employment sector. It is double the size of Financial Services and it is larger than the Automotive, Pharmaceuticals and Aerospace sectors combined. Hospitality creates £130bn in economic activity and generates £39bn of tax for your mate, Rishi.



Source: UKHospitality

Bull: I can now understand why the Government is being asked to provide further relief. They are desperate for a reduction in VAT back down to 12.50% and, whilst I know I sound like a broken record, someone has just got to sort out the business rates system.

Bear: Yes, especially when the economic forecasts are so bleak. The odds of the UK economy falling into a recession shortened this week, didn't they? Household confidence levels have collapsed to the lowest on record as consumers fight forty year-high inflation and are seeing little increase in their wages. On top of this, the sector is reportedly losing £21 billion in trade as a result of record staff shortages.

Bull: Is there any positive news you can share on the sector?

Bear: Not easily, no. According to UKHospitality, more than 10,000 pubs and restaurants are at risk of closure. Lots of independent operators are already handing in their keys and walking away. Apparently 20,000 of UKHospitality member businesses are still operating below break-even and 30,000 have no cash resources.

ST BRIDE'S MANAGERS

Bull and Bear

Leisure - Play Time?

Bull: I asked for positive news. Not more disturbing stats.

Bear: I am afraid there is no denying the facts. Anger and frustration is growing in the sector. For many operators, they feel like they are being dragged back to the business levels they experienced during the COVID lockdowns.

Bull: Wow. I don't doubt their difficulties. But statements like that sound excessive to me. Even the sector itself accepts that a number of their ongoing challenges are self-inflicted.

Bear: Like what?

Bull: F&B over-expansion, a legacy of unaffordable rents, plus the spectre of Private Equity ownership is still weighing heavily on some segments of the market. There needs to be some deep reflection from within.

Bear: To some extent there has already been. Leisure operators were forced to re-engineer their business models during the pandemic, leading to wider diversification, better use of technology and maiden ventures into the multi-channel arena. Innovation is in hand, and we are likely to see a whole host of new brands, formats and concepts emerging in the near to medium future.

Bull: I'm really intrigued to see how things play out. I can certainly see the market for 'competitive socialising' going from strength to strength. I love a bit of axe throwing and crazy golf, but my current favourite is escape rooms.

Bear: I agree. And, did you hear about a new 'hyper-reality' activity, 'Jump', that is being launched at a shopping centre in New Jersey, USA. Apparently, the activity involves customers putting on a wing suit and a virtual reality helmet to see and feel what it is like to jump off cliffs and skyscrapers. It sounds epic.

Bull: Perhaps the venue for our next team bonding session?

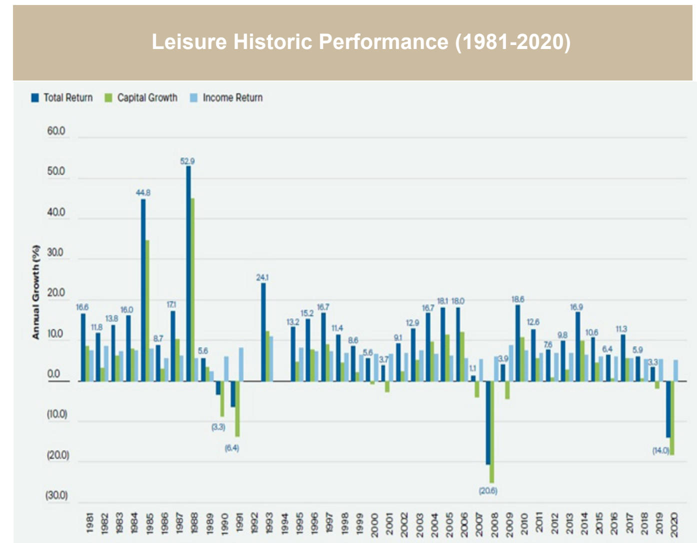
Bear: As if St Bride's expenses would run to that! Anyway, consumer attention spans are constantly shortening, aren't they? Not all concepts will therefore endure. Some of today's new and emerging brands will undoubtedly fall by the wayside. That's why I remain sceptical about the attractiveness of the sector as a property investment opportunity.

Bull: I hear you. But I don't think it's a complete no-no. You know what they say. Fortune favours the brave. Plus, the long-term performance from leisure has been good.

Bear: Sorry? What did you say?

Bull: According to Knight Frank/MSCI, between 1981 and 2020, Leisure Parks considerably out-performed virtually every other mainstream property asset class, delivering an annual average total return of +11.2% (All Property +8.6%, All Retail +8.0%).

Bear: Wow. I didn't see that coming. But that's all in the past, isn't it? It's the future that matters now.



Source: Knight Frank / MSCI

Bull: Agreed. But the current spread in yields between leisure and the other main sectors is eye-watering. According to CBRE, yields for Prime Leisure Parks are currently around 6.75%, with good Secondary Leisure Parks at 8.50%. Prime yields have moved out by +150bps since March 2020 and by +200bps since their 4.75% heyday in early 2018. This price easing has created a potential counter-cyclical buying opportunity … for the right stock, of course.

Leisure Investment Yields		
Sector	June 2021	June 2022
Prime Leisure Park	7.00%	6.75%
Good Secondary Leisure Park	9.00%	8.50%
Cinema Prime	7.00%	6.50%
Health & Fitness Prime	4.75%	4.50%
Prime London Corporate Pub	4.00%	3.50%

Source: CBRE, June 2022

Bear: You just can't help yourself, can you? Always looking for the next bargain. Personally, I just don't think you'll find one on the leisure shelf.

Bull: Maybe, but I'm still going to keep my eyes open. Anyway, shall we have another beer to do our bit for the sector? I know it's early, but the industry needs us!

Bear: That's the best excuse I've heard for a while. Why not order us both the full English breakfast whilst you are up there!

Bull: Brilliant idea. Let's enjoy our Sunday!

Bristol - A whistle stop tour

After joining Hartnell Taylor Cook in Bristol for their annual Property Review, Bull shares his overview of the city and explains why it should form part of any investment strategy in the regions.

Bear: Funny old game, sport. I woke up with such high expectations yesterday, but by the time I sat down for tea I'd witnessed Katie Boulter being knocked out of Wimbledon, an English rugby defeat to the Aussies, and one of our most experienced Test bowlers, Stuart Broad, being despatched for 35 runs in one over!

Bull: And, what is more, 29 of those runs came off the bat of the Indian number 11! Unbelievable.

Bear: I know. At least the England rugby team have the chance to make amends for the rest of their tour down under.

Bull: Speaking of tours, Bear, did I tell you about my recent trip to Bristol? I joined Hartnell Taylor Cook for their annual Commercial Property Review. One coach ride, a boat ride, and an excellent lunch later, and I am fully up to speed with all things Bristol.

Bear: So, what were the key takeaways from your Bristol tour, Bull? Did it reinforce St Bride's research-led strategy that consistently ranks Bristol as one of their "Key Cities" for regional investment? Or were you too busy enjoying the river views from the boat's sundeck and sampling the local cider?

Bull: There was no time for such distractions, my dear Bear. I was scribbling notes so fast my hooves hurt.

Bear: Uh-huh.

Bull: Although, if you're after an alcohol-related anecdote, I got one of those too. Did you know that the phrase "happy as a sandboy" has a Bristolian origin?

Bear: I didn't. But, more to the point, I am not even sure I know what a "sandboy" is?

Bull: Sandboys were employed by pub landlords to collect sand and spread it on the floor to soak up all the spilt drinks. And they were paid for their efforts in beer! The Ostrich Inn in Redcliff Basin was situated right by some sand-filled caves and that's where the expression originated from.

Bear: Well, that is a new one for me, Bull, but I fear we are already getting slightly side-tracked. I read that nearly £400 million was poured into industrial investments in Bristol in 2021, the highest on record. Is that Bristol's real strength?

Bull: It's certainly one of them, Bear. Bristol's industrial and logistics market saw unprecedented levels of occupier activity in 2021, with take-up of 2.63m sq. ft. That's an increase of 13% on 2020. The bus tour took us around Avonmouth, and it's been absolutely transformed over the past few years.

Bear: Did you drive past "The Range" 1.2m sq. ft. distribution hub then? I heard that it's the largest single-building in the whole of the Southwest. Apparently, it's the size of 14.5 football pitches!

Bull: And mighty impressive it is too, Bear. I think I counted 104 loading doors! But it's the sheer number of 100,000 sq. ft. + warehouses that really struck me. Just in the past year alone, Amazon took 316,000 sq. ft. at Western Approach and Oxford Insurance took a pre-let of 108,000 sq. ft. at Central Approach. In fact, if I can just find my deal notes…

Bear: Point taken, Bull. I don't think we want a list of every occupier deal this year. Bristol does seem to have all the ingredients for big-box development doesn't it? Land availability, a strategic location, and the all-important access to the UK motorway network.

Bull: Funny you should mention the motorway access, Bear. That's a slightly sore point for some of Avonmouth's key industrial occupiers at the moment!

Bear: Why? I thought they were spoilt for choice for motorways.

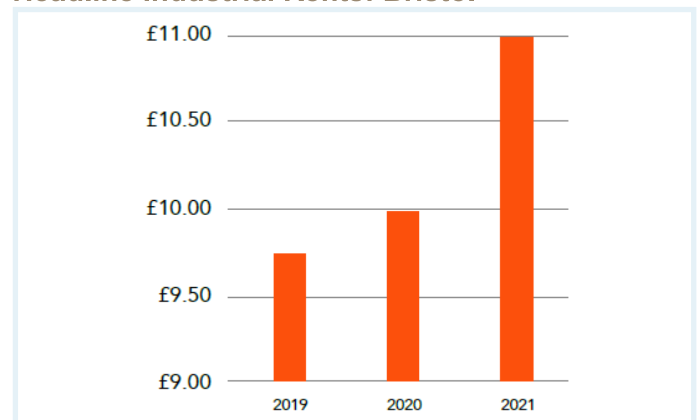
Bull: They are, Bear. It's just that in the case of the £50m, Severn Beach junction that was built in 2019 to transform access onto the M49 motorway, they can't actually use it yet. The junction stops 160 metres short of Western Approach Distribution Park and nobody's built the link road! Three years of squabbling between landowners and the local authorities, and it's still not connected!

Bear: You are kidding. What a mess! That's not a great advertisement for the ability of the region to deliver major projects.

Bull: It's not, Bear. But, I don't think one minor hiccup will stop global capital paying top prices for Bristol industrial. The logistics sector has been so strong recently that investors are prepared to acquire partially let and even mostly vacant properties. NFU Mutual acquired Port Side Park, Avonmouth for £21.7 million in March last year despite the 155,000 sq. ft. scheme being less than 10% let!

Bear: Now that's a vote of confidence. I think we should let the statistics do the rest of the talking on the industrial side. Just look at the graphic below! Headline rents are growing exponentially, take-up has risen year-on-year, and supply still hasn't caught up.

Headline Industrial Rents: Bristol



Source: Hartnell Taylor Cook

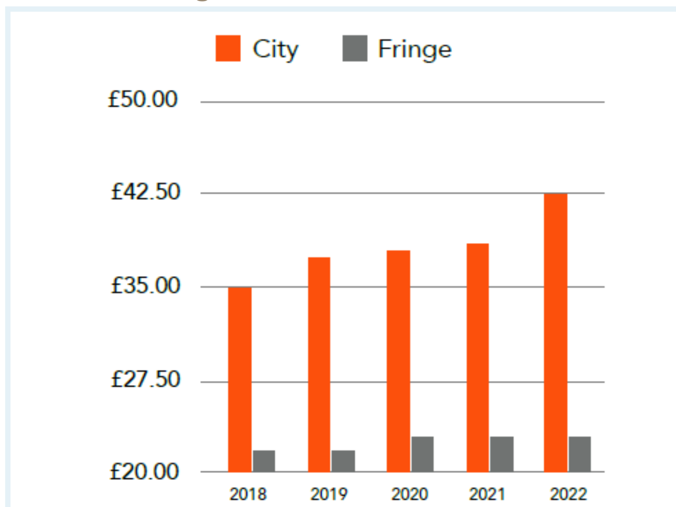
Bristol - A whistle stop tour

Bull: Shall we switch our attention to the City Centre, Bear. If you get it right, I think the case for Bristol offices is just as a compelling as the case for industrial.

Bear: Well, I did hear somewhere that Bristol office rents in the City Centre have hit £40.00 psf. Is that true?

Bull: And the rest, Bear. Payment Sense recently confirmed they'll be taking 50,000 sq. ft. at the soon-to-be completed 200,000 sq.ft. EQ building. They'll be paying £42.50 psf for the privilege, a new record for Bristol. Great sustainability credentials, a roof-terrace restaurant with superb views, a dedicated fitness studio; it will have it all.

Office Rental growth: Bristol



Source: Hartnell Taylor Cook

Bear: Sounds nicer than the hotel I've just booked for my summer holiday! So, is Bristol seeing the same "flight-to-quality" from occupiers that's being seen elsewhere?

Bull: If they can find it, Bear. The City Centre market has recovered strongly since the pandemic, but high-quality space is in limited supply putting an upward pressure on rents.

Bear: What about the overall take-up levels? Is there a danger that occupiers continue to rationalise and reduce their requirements for office space?

Bull: That's true, Bear. But there is a fundamental undersupply of space in Bristol CBD which will only be partly addressed by new schemes such as Assembly 2&3 (110,000 sq ft) and The Welcome Building (200,000 sq ft). I am slightly less optimistic about the prospects for the out-of-town market though. I saw more ducks than people when we drove around Aztec West Business Park!

Bear: That's probably because everyone was busy working inside, Bull. Not being chauffeured round Bristol on a sight-seeing tour! The CGIs for 1000 Aztec West, which is currently under construction, look amazing. A lake-side setting; landscaped gardens; parkland for a quick lunchtime jog, or a meandering stroll at lunchtime.

Bull: Since when have you ever been for a "quick lunchtime jog" Bear!

Bear: That's not the point, Bull. It's all about delivering space for the workforce of the future; the millennials and Generation Z.

Bull: Agreed. But, the reality is that the supply of space in Bristol's out-of-town market is increasing. I think the jury is still out on whether occupiers will be encouraged to look beyond the city for amenity and value. Especially if the likes of GEG need to secure rents of £28 psf+ at Aztec West.

Bear: We're almost out of time, Bull, and we haven't even touched on the retail market. Do you have any final nuggets of wisdom on Bristol retail?

Bull: I'd have to say that the tradional retail core around Broadmead was looking very sorry for itself, Bear. Apparently, availability is two times higher than before the pandemic, and the market's overall vacancy rate has risen significantly. Debenhams and M&S have both gone.

Bear: Covid wasn't kind to Bristol's retailers then?

Bull: It wasn't, but what is encouraging is there are already significant chunks of the central retail core with plans for redevelopment. Hammerson's plans for Callowhill Court will (eventually) deliver up to 1.1 million sq ft with a mix of uses. And, The Galleries, Bristol's original purpose-built shopping centre has been acquired for redevelopment.

Bear: Sounds like Bristol's retail is set for a period of transition then.

Bull: The sooner the better, Bear. The retail core is in the hands of a few key players who have assembled significant sites for redevelopment, but only over the medium and longer term.

Bear: Sounds like you covered a lot on your little outing, Bull. And you haven't even listed what you had for lunch at the restaurant; always an important factor in a Bull's day!

Bull: Ah, the restaurant sector. Now that is a scene in Bristol which is flourishing, Bear. The city has managed to retain its reputation as a market leader in hospitality. It is one of the key ten or so cities nationally that operators must be in and I can certainly see why. There is a very "cool" independent scene.

Bear: I am not sure I am overly qualified to comment on that, Bull, but I did hear that Boxpark are opening their first out-of-London shipping container dining and shopping destination, in the city. That has to be a vote of confidence.

Bull: And one that I would echo for Bristol as whole, Bear. Bristol's restaurant and leisure scene is a core strength that will continue to help attract people and business to a city on the rise.

Bear: Same time next week, Bull? I am off to the bar to order my first Pimms of the summer. It is Wimbledon fortnight after all!

Changing Sentiment?

Bull cannot understand why investors have put their foot on the brakes, other than to reward themselves with an extended holiday.

Bear: Have you booked your holiday yet?

Bull: Yes. And I have decided to take three months off while I am at it. Like everyone else seems to be doing.

Bear: What?! You can't do that. I need you here to listen to my Sunday morning gripes.

Bull: Tough. You and your fellow bears have blown it this time. Even though everyone has known for months that an interest rate hike was inevitable, now that it has happened, you are all running for the hills. When I get back at the end of September, hopefully the doomsters will have seen sense. All this Boris Johnson stuff will be history and we can all concentrate on buying again.

Bear: That's a bit harsh. As Grandma Bear always told me … it's better to be safe than sorry.

Bull: I loved your grandma dearly, but this time you have surpassed yourself for negativity. The massive down-pricing of UK REITs over the past six months has been bonkers.

Bear: You have to admit though that with The Bank of England hiking rates from 0.25% to 1.25% (with more to come) and lending margins widening as well, the only way for property prices now is … down!

Bull: No, I do not accept that. The list of overseas investors still trying to get into London assets is legion. And, remember, a large part of the domestic (institutional) market never gears their investments anyway.

Bear: But REITs do.

Bull: Big deal. And anyway, most of their borrowings are fixed for the next couple of years.

Bear: Okay. But what about the long-dated 'annuity' market? With ten-year gilts now over 2%, it is less easy to justify some of the prices being paid for low yielding long-leased assets.

Bull: Maybe. But don't forget that long-dated property deals are usually index-linked (even if they are capped and collared). And indexed-linked gilts are still negative.

Bear: Fair dos. But, even if I accepted that, which I don't, you cannot possibly refute the negative impact that higher interest rates will have on private equity buyers where debt is at the very core of their strategies.

Bull: Why should we sweat about the misfortunes of a few greedy US gamblers?

Bear: Gamblers? You don't get it, do you? These PE guys are like … HUGE! You dismiss them at your peril. Let me share with you a few basic facts about the Private Equity and Venture Capital market.

Bull: Really? Is this how I want to be spending my Sunday morning?

Bear: If you're smart, you will. You can always put it down to CPD. In April, the British Private Equity & Venture Capital Association published a report, prepared by EY, which revealed that more than 9,600 companies in the UK are supported by private equity investors. The companies span across the whole economy.

Private Equity & Venture Capital – Spread of UK Investments	
Wholesale and Retail	24%
Personal Services	22%
Transportation, Information and Utilities	20%
Professional Services	18%
Manufacturing	7%
Finance, Insurance, Real Estate, Rental & Leasing	6%
Agriculture, mining and construction	3%

Source: BPE & VC Association

Bull: There you go. The proportion going to real estate is tiny compared to the overall PE action.

Bear: It may be a small percentage, Bull, but the actual financial numbers are jaw-dropping. Supposedly PE and VC-backed businesses delivered £102 billion of GDP in 2021, which is equivalent to 5% of UK GDP.

Bull: Is that really jaw-dropping?

Bear: It is if you consider these companies employ 1.9 million people, which is about 6% of the total jobs in the UK. And total employees' earnings were c.£58 billion. Refinitiv reckon that, across all UK sectors over the past year, there were 385 buyouts worth about £35 billion. That's 8% higher than the previous twelve months.

Bull: Okay, fair enough. But the sector is all about smoke and mirrors, isn't it? For instance, we hardly ever see the sector's performance numbers. We know that investors are promised 15-20% IRRs, but how has PE actually performed?

Bear: You need to understand that most PE/VC vehicles are global, and the subscription figures are staggering. According to Preqin, total assets amount to around $8 trillion and this is expected to rise to $11 trillion by 2026. And Bain &Co have published a paper on PE activity which shows that 2021 was a record year for the sector.

Changing Sentiment?

Global Private Equity Activity 2021
• World-wide, $1.121 trillion was invested in PE buyouts. This was double the $577 billion in 2020.
• About half of all PE and VC capital was invested outside North America in 2021.
• The average deal size went through the $1 bn mark for the first time.
• 2021 was the second-best fund-raising year ever.
• $1.8 trillion was raised of which $1.2 trillion was in global funds.

Source: Bain & Co

Bull: Yes. But you have dodged my question. How well has the sector performed?

Bear: Just look at the numbers for the Refinitiv Private Equity Buy-out Index to the end of 2021. They are eye-watering.

Refinitiv Private Equity Buy-out Index – Annual Returns	
2014	20.6%
2015	6.7%
2016	8.6%
2017	31.5%
2018	-11.9%
2019	37.4%
2020	25.6%
2021	29.8%

Source: Bain & Co

Bull: I have to hand it to you, Bear. These are impressive numbers. Much better than real estate. On this basis, I can't understand why I haven't got stuck into this sector before now.

Bear: Clearly, lots of investors have already done so and I am aware that some institutional portfolio weightings are now exceeding 5%. Private equity and venture capital forms part of their 'Aternatives' portfolio which also includes property, infrastructure and hedge funds.

Bull: So how about 2022? Is performance still going gangbusters?

Bear: Ah! Well, no … not exactly. For instance, for the six months to end-June the Refinitiv index has fallen by 38%.

Bull: What?! Say that again.

Bear: The Refinitiv PE Buyout Index has fallen by 38% since January.

Bull: I am speechless, Bear. You led me up a beautiful garden path promoting an almost unblemished performance record and then you blast me with this! It's not good enough, Bear. You are meant to be the Bear in this relationship and here you are pretending to be a Bull. No. It really isn't good enough. I rely on you to tell me all the bad news out there. And then I can ignore it!

Bear: Calm down, dear. Don't you see… this may signal the right time to invest? With global 'dry powder' (funds committed but not yet placed) at a record of $3.4 trillion and with just over 10% of this destined for real estate, the next movement may well be up. UK REIT and property company share prices have collapsed by 18% since the start of the year and some of the discounts to NAV are starting to look rather juicy. If they stay that way, this is the area I think the 'Big PE Boys' could well focus on first.

Bull: And, I guess, the fall in the dollar/sterling exchange rate will be in their favour too.

Bear: Yes. The pound has fallen by over 12% ($1.37/$1.20) since the start of the year and the way things are going on this side of The Pond, it will probably fall further.

Bull: Won't this leave some of our prized UK corporates exposed?

Bear: Yes, it will. Companies that have already been mentioned in dispatches include … BAE Systems, Biffa, Computercentre, DS Smith, Flutter/Paddy Power, Greggs, ITV, Money-supermarket and Next. And, of course, Walgreens Boots is still in play following the recent failure to secure their target price.

Bull: But do we really want to see the UK's crown jewel companies gobbled up by US asset-strippers? It seems rather short-sighted to me. Surely, we want them to focus on supporting our failing/under-performing companies rather than aiming at our gems?

Bear: Branding them asset strippers is unfair. Yes, these financial giants want high returns, but they now want high-quality cash-generative companies with little or no debt.

Bull: Like the Glazers did with Manchester United, then. After buying them in 2005, they whacked £660 million of debt across the business?

Bear: Yes, that's correct. It sounds horrendous, I know. But you must equally acknowledge that in 2005, United's annual turnover was just under £159 million with the largest part coming from match-day receipts. In 2019, the club earned £627 million. Whilst match-day receipts had nearly doubled to £111 million, the commercial revenue had grown by 600% to £275 million. This is a successful business story.

Bull: But no one likes the Glazer's cold-hearted approach, do they?

Bear: True, but I bet sentiment would change overnight if they won the Premier League this coming season.

Bull: Fat chance! But what you have made me realise is that, with all the political and economic malarky going on at present, there could easily be some decent opportunistic deals available. On second thoughts then, maybe I should hang around a bit longer and see what happens.

Bear: Great. I'll see you next Sunday, then.

Bull and Bear

London Offices - Overheating?

Battling against the ongoing heatwave, Bull and Bear meet up to discuss the London office market and explore whether it should still be on investors' buy-lists.

Bear: Now then Bull. How has your week been?

Bull: Hot. Although it hasn't really bothered me that much.

Bear: How come?

Bull: Well, in truth, I struggled to extract myself off my sofa yesterday. Firstly there was the rugby, with great wins for Ireland and England. Then there was a fair bit of T20 Blast cricket finals day, not to mention the Open golf from St Andrews. I didn't need to apply any sun cream at all!

Bear: Knowing you, I suspect you kept yourself nice and hydrated!

Bull: No comment! And as for the working part of last week, the merits of the office and a fully functioning air-conditioning system certainly came into play!

Bear: I know there is this severe weather warning over the next few days, but it really wouldn't surprise me if office occupancy rates rise as employees seek some respite from the heat.

Bull: Fat chance. Commuting will be brutal. If there was ever an excuse for someone to re-enact COVID times, it will be Monday and Tuesday! TEAMS will be busy! Mark my word. Not that there has been any significant return to the office anyway. From what I read recently from Remit Consulting, office occupancy in Central London was only 29.3% in the middle of May.

Bear: I saw that too. It doesn't paint a particularly happy picture for office owners or developers in London, or anywhere elsewhere for that matter.

Bull: Perhaps, but we need to remember that offices have never been 100% occupied. Records don't exist as to what the norm was pre-COVID, but research in 2010 by the British Council of Offices cited an average occupancy rate of 60%. So, assuming the Remit numbers are correct, that shows a halving of occupancy, rather than being down two thirds as has been suggested.

Bear: It's difficult to really know, isn't it? Throw in holidays, sick leave, meetings and travel, and getting an accurate picture of occupancy levels is tough.

Bull: Notwithstanding Remit, recent Google data shows that 60% to 70% of City employees are back at their desks. And Helical have gone on record this week saying that their office occupancy numbers are similar.

Bear: Okay. So, if we accept that office occupancy rates aren't quite as bad as the surveys suggest, does that mean you are a buyer of London offices? I was casting my mind back to all the topics we have covered since we were re-engaged by St Bride's earlier this year, and I don't think we have discussed the state of the London office market.

Bull: Really? I am surprised. I know we have discussed the impact of working from home on the office. But, I guess you are right.

Bear: So, are you a buyer or seller?

Bull: I'm not going to give you a straight answer! Not because I can't, but because the London office market is too big and complex to provide a one-word answer.

Bear: You've clearly been watching too much of the Conservative leadership pitches. Only one of the five final candidates would give an answer on Friday night to the simple question of whether they thought Boris was honest or not. Yes or No. It was embarrassing.

Bull: I agree, but when it comes to the London office market, different sub-markets are performing better than others. So being generic is just misleading and lazy. Take, for example, the difference between the West End and City markets. It's stark.

Bear: How so?

Bull: Well, if I use prime yields as the barometer, one of the markets has seen its prime office yield soften over the last month. The other has seen no change. Even you must know which is which.

Bear: Don't be so condescending, Bull. It doesn't suit you! I can't say I'm surprised that the West End office market remains as popular as it is. But the recent moving out of City prime office yields did come as a bit of a surprise.

Central London Office Investment Yields		
Sector	June 2022	July 2022
Prime City Office	3.75%	4.00%
Prime West End Office	3.25%	3.25%

Source: CBRE, July 2022

Bull: Yes … both Savills and CBRE have increased their prime City office yield from 3.75% to 4.00%. Even so, the City market is far from dead. In fact, June saw a significant uptick in investment volumes, with five deals exchanging, amounting to nearly £700m. That's an increase of over 200% on May.

Bear: Maybe. But from what I've read, Q2 was much more subdued than Q1. The trend is certainly weaker. There's no doubt about it.

Bull: Perhaps. But office transaction activity in H1 2022 shows a 77% increase on H1 2021 and was also some 31% above the ten-year average. Over £5.62bn, across sixty-two transactions, has been traded so far this year. This equates to the highest volume during H1 since 2018. It's hardly doom and gloom!

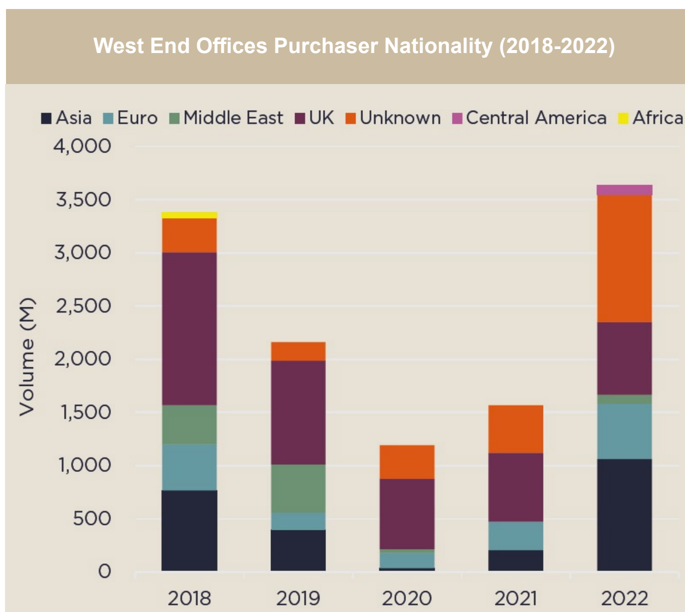
London Offices - Overheating?

Bear: But even you can’t deny that there are some challenging headwinds out there, especially with rising borrowing interest rates. Within the last twelve months, the five-year SONIA swap rate has increased from 0.45% (June 2021) to circa 2.50% today, having peaked at around 2.80%. It’s no wonder then that this is limiting the number of market participants.

Bull: Agreed, but the volatility has seen investors turn to the depreciation in Sterling against several of the major global currencies, especially the US Dollar. As a result, the opportunity now exists for cash buyers to deploy capital at historically attractive rates and Asian Pacific investors have been the most active on the buy-side this year.

Bear: That’s encouraging to hear, given they were so subdued during 2021.

Bull: Indeed. But over in the West End, North American investors were the most active buyers by volume in H1 2022.



Source: Savills

Bear: Wow. That does surprise me. I thought domestic investors had been the most active.

Bull: They have been in terms of both investment volume and the number of deals done in H1 over the last five years, on both the buy and sell side. But the trend has changed over the last six months, with North American and Asian capital being the most active.

Bear: What type of assets are they buying? I bet it is well located properties offering a secure income profile.

Bull: Bingo! Take 49 Park Lane, W1 as an example. A private Guatemalan investor has just paid £95m for this circa 28,000 sq. ft. office building let to Wilmer Hale for a further 7.50 years.

Bear:Let me guess the yield. 3.00%?

Bull: As ever, you are far too bearish! It was 2.69%. On this basis, I can easily see why the big agents are still recording prime West End office yields at 3.25%. The amount of money sitting on the side-lines looking for a ‘home’ is really significant. By way of another example, the Malaysian haji pilgrims fund, has just agreed to buy a government-let office in Victoria for a mere £247.5m. The price they paid reflects a yield of 3.25%.

Bear: So, coming back to my earlier question. Are you a buyer of London offices?

Bull: It might shock you Bear, but I don’t have £250m sitting in my bank account ready to deploy, so I couldn’t compete with the Malaysians.

Bear: Stop being so annoying. Let me put it another way then. Would you advise your clients to keep their London office investments? Or, with the economic headwinds and changing occupational requirements of businesses, is now the time for them to bail out?

Bull: London offices will always have a place in my heart … and property portfolio. Cycles come and go, but so long as the building is well-located and has (or can have) strong ESG characteristics, I certainly wouldn’t be looking to off-load them.

Bear: And buy now… or wait on the side-lines to see how things play out?

Bull: That’s a harder question to answer. But in true Tom Tugendhat-style, I am actually prepared to give you a straight answer. Be proactive. With this uncertainty may come opportunity.

Bear: Classic. Why do you have to be so infuriating!

Bull: Because you know I’m always right! Anyway, let’s call it a day and enjoy the sunshine. Given how much weight you have put on recently, you probably need to start applying sun cream immediately!

Bear: Pot, kettle and black comes to mind! Have a great Sunday… and come on Rory!

The Climate Challenge

In the aftermath of a debilitating heatwave that has affected the UK and much of Europe, Bull and Bear discuss what the property industry can do to reduce operational and embodied carbon emissions.

Bear: What a week, Bull. I never thought I'd have to hunker down in the house all day, with the windows and curtains closed, just to get away from the 40-degree temperatures outside. It felt like I'd gone into temporary hibernation!

Bull: Tell me about it, Bear. We were complaining about the how hot it was last week, but Monday and Tuesday were something else. You know the mercury reached 40.3 degrees in Lincolnshire on Tuesday. Bulls really aren't designed for that type of heat.

Bear: It was extraordinary, wasn't it? I felt desperate for the poor people whose homes were destroyed by wildfires. It was so hot people's garden compost heaps were self-combusting.

Bull: And we'd better spare a thought for our friends on the Continent too, Bear. Wildfires have been raging across Europe. I heard that 37,000 people were evacuated in the Gironde region of France alone.

Bear: Well, I suppose old Boris did finally leave us with one sensible piece of advice in his final PMQs.

Bull: He did?

Bear: Yes. He described people who use barbecues on dry grass as "clearly insane". I had to chuckle.

Bull: Was that before or after he called Keir Starmer a "human bollard". I have to say that I'll miss his barbed quips towards the opposition front bench. Remember when he called Jeremy Corbyn "a great big girl's blouse"!

Bear: He was certainly entertaining. I'll give him that. But, considering what's happened this week, I think we should be focusing on the rather more germane advice of an earlier Prime Minister, Theresa May. She has been urging the Tory leadership candidates not to abandon the net zero target for 2050.

Bull: You are right as always, Bear. The heat must have got to me. If COP26 didn't focus governments on the urgency of addressing climate change, then surely these extreme temperatures are a further wake-up call.

Bear: You'd hope so. And the property industry needs to play a central role if the Government is going to get anywhere near achieving its ambition to achieve net zero. Did you know that the built environment is responsible for 38% of all energy-related carbon emissions across the globe?

Bull: Gosh. That's a rather sobering statistic.

Bear: And one which means our industry has a collective responsibility to take meaningful action to reduce emissions.

Bull: Indeed. At least the major UK institutions and property companies appear to be laser-focused on the issue. There isn't a week that goes by without someone announcing an ambitious target to achieve net zero operational carbon.

Bear: And this is where we get to the tricky part, Bull. The detail. We've not only got to address the issues of operational carbon, but the embodied carbon as well.

Bull: These things are never simple. I am guessing that operational carbon refers to the greenhouse gases emitted whilst a building is occupied. Is that correct?

Bear: Correct. Most landlords are rightly concentrating on trying to reduce their operational carbon emissions. British Land for example is working to reduce the operational carbon emissions from its portfolio by 75% by 2030 (versus 2019), focusing on renewable power and energy saving initiatives.

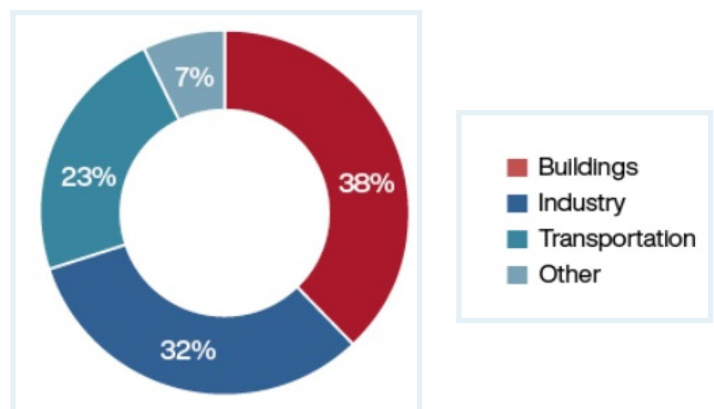
Bull: Well, that should please their tenants. Any initiatives that reduce energy use are going to be welcome, especially given the soaring cost of utilities!

Bear: Right. The switch to renewable energy sources is key, but there are a whole host of other measures that can be undertaken to reduce carbon emissions; from installing LED lighting and introducing mixed-mode ventilation, to fitting photovoltaic panels, as well as energy-efficient air and water source heat pumps. It's all about utilizing circular systems principles to increase efficiency.

Bull: I'll have to defer to your technical knowledge here, Bear. But, some of these additional measures sound rather expensive! Who exactly is footing the bill?

Bear: Trust you to have one eye on the bottom-line, Bull! There is no simple answer here, but, with energy prices escalating, the payback period for most energy efficient interventions is improving. Many occupiers will see a compelling case to pay for improvements themselves. And, for multi-let assets, some interventions can be funded through the service charge as part of planned plant replacements.

Global CO_2 energy-related emissions: by sector



Source: United Nations Environment Programme

The Climate challenge

Bull: And I suppose all these initiatives at least have the added benefit of improving a building's EPC rating. I read a recent report from Gerald Eve that suggested that half of multi-let shed space is at risk of non-compliance in the next five years!

Bear: Yes. And the issue of future non-compliance is not limited to sheds. The deadline to improve ratings to a minimum "C" is April 2027.

Bull: That's not that far away.

Bear: Not at the pace our industry moves! Landlords need to execute their strategies to update buildings quickly.

Bull: So, on the one hand, the property industry is actively taking the initiative, setting ambitious operational carbon reduction targets; and, on the other, the Government is applying pressure on landlords by introducing evermore stringent MEES regulations.

Bear: That's exactly right, Bull. The UK Government intends to raise the minimum standard over time and is considering a proposal that all buildings should reach a minimum standard of a B-rating by April 2030. Landlords who haven't taken the "bull by the horns" will get caught out.

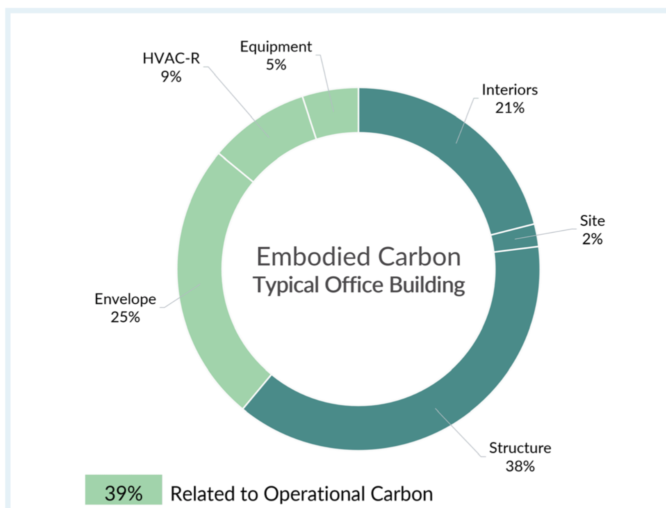
Bull: Leave my horns out of it, Bear. What about the embodied carbon you were talking about earlier? That sounds like even more of a challenge.

Bear: You're right. Embodied carbon has been rather over-looked in favour of operational carbon, but I am confident things are moving in the right direction.

Bull: How so?

Bear: Well, for starters, the Carbon Emissions (Buildings) Bill could be a milestone in the Government's net zero policy. If it is passed, it would change building regulations to make it mandatory to measure, report and reduce the embodied carbon footprint of new buildings.

Embodied Carbon: Typical Office Building



Source: Stok

Bull: You mean the CO_2 generated in the construction process?

Bear: Yes. The building materials' lifecycle carbon emissions, from extraction, manufacturing, and transportation, to end of life. The reality is that carbon emissions are overwhelmingly associated with construction rather than operation. We need to think in terms of "Whole Life Carbon" to be able to inform development decisions around both embodied and operational carbon.

Bull: That makes sense. So who is driving this Bill?

Bear: The property industry themselves. As I understand it, several major property and construction companies are supporting the Bill because it will provide both investors and tenants with the ability to make informed choices about how much embedded carbon is contained in the buildings they are buying.

Bull: That all sounds well-intended, Bear. But, unless I've completely misunderstood, there isn't much you can do about the embodied carbon once the building has been constructed.

Bear: That's a fair point, Bull. But this industry-led Bill is only a building block. Measurement is the first step, because it shines a spotlight on the embodied carbon in construction and allows us to quantify the issue.

Bull: But what about reducing the embodied carbon in new developments? Surely, it's technically feasible to reduce construction-related carbon emissions?

Bear: Now you are really talking the language, Bull. Parts of the construction industry are already working to reduce their emissions. For example, by selecting lower-carbon intensive materials. However, changes to Building Regulations and Planning policy will also play a key role here.

Bull: Do you have any examples?

Bear: Well, on the planning side, the City of London want all major applications submitted within the Square Mile to report on Whole Life Carbon both during the pre-application stage and at application submission/determination stage. They are hoping their guidance will act as a blueprint.

Bull: Isn't there a danger that this will constrain new development altogether? Demolishing existing buildings in the future could be quite hard to justify.

Bear: Like all these things, Bull, it will be a fine balance. Developers will need to clearly demonstrate that demolition will outweigh the benefits of retaining all or part of an existing building. The knock-down, rebuild model just isn't sustainable.

Bull: Well, I am all for it. It sounds like the industry has a lot of work to do, but if Government, regulators and the industry work together we've got a chance.

Bear: Till the next time then?

Bull: Or, to paraphrase Boris one last time, "Hasta la vista, baby".

Demographic Challenges

As the world's population is about to pass eight billion, Bull and Bear consider the ramifications of the UN's latest demographic predictions.

Bear: This new ale is very good indeed. I can't quite put my paw on it, but it definitely has a unique flavour.

Bull: Yes. Some Swedish bloke came in last week and persuaded the landlord to try out his special brew. I have been adding my bit to help him get the taste just right.

Bear: Good for you! Anyway, let's get on. We have some serious stuff to discuss. Most particularly the problems everyone is having recruiting staff. Just look at the ferry ports, the Passport Office, the NHS … it's approaching chaos. And I am struggling to see a long-term solution to the problem.

Bull: C'mon. We are just suffering some post-Brexit, post-COVID hitches.

Bear: I don't think so. The UN has just published their latest world population predictions. It makes for a disturbing read. First off, they reckon that on 15 November 2022 the global population will pass eight billion.

Bull: Wow! That's a lot of mouths to feed.

Bear: Yes, it most definitely is. And to put eight billion into context, if we all held hands, we would wrap around the Earth three hundred times! Whilst the overall annual growth rate is just under 1% there are wild continental variations. Europe's population, for instance, shrank by 744,000 in 2020 and by 1.4 million in 2021. This was the largest fall of any continent since records began in 1950 and reflects a surge in deaths, a fall in births and lower net migration.

Bull: I can't imagine that COVID helped.

Bear: No, it didn't. Moreover, the pandemic reduced global life expectancy at birth from 72.8 in 2019 to 71.0 in 2021.

Bull: Okay, that sounds quite serious but please don't spoil my pint with another of your doomsday sagas. Let's try and keep things relatively light-hearted. For instance, I have two facts that may help to put these numbers in perspective:

- Firstly, if they can somehow escape the chop, the average life expectancy of a bull is 15-20 years. Supposedly, it is 25 years for bears. (Strangely, we seem to have lasted rather longer than that.)
- Secondly, if you think that eight billion people is a lot, how mind-blowing is the estimate of the global population of ants? Ten quadrillion. In numbers, that's 10,000,000,000,000,000. And with each ant having six legs, that's sixty quadrillion legs crawling all over the Earth!

Bear: Bull, whilst that is all fascinating, may we please stick to the topic in hand. Most particularly, the UN's forward-looking numbers. They simply cannot be ignored.

Bull: Okay, my friend. Please carry on.

Bear: The UN expects the global population to reach 8.5 billion by 2030 and 9.7 billion by 2050. Remember, the world's population in 1950 was only 2.5 billion.

Bull: Crumbs! I can see that not only will this put more pressure on food supply, climate change and natural resources but also the built environment. All these additional people will need somewhere to live, work and play.

Bear: Yes, they will.

Bull: I can see the problem, but at least with all these additional people around, the guys at St Bride's should be able to recruit staff more easily.

Bear: They won't unless they plan to open offices in sub-Saharan Africa or East Asia. More than half the projected increase by 2050 will be concentrated in just eight countries – DRC (Congo), Egypt, Ethiopia, Nigeria, Tanzania, and India, Pakistan and the Philippines.

Bull: I am surprised that China isn't on that list.

Bear: No way. China is expected to see a decline in its population as early as 2023. Don't you remember their one child policy between 1980 and 2016? As a result, India is expected to overtake it as the most populous country next year.

UN Population Predictions

Region	2022 (million)	2050 (million)	% Change 2022-2050
Eastern & South East Asia	2,342	2,317	-1.07
Central & Southern Asia	2,075	2,575	+24.10
Sub-Saharan Africa	1,152	2,094	+81.77
Europe & North America	1,120	1,125	+ 0.45
Latin America & Caribbean	658	749	+13.83
North Africa and Western Asia	549	771	+40.44
Oceania	45	58	+28.89
Total	7,942	9,689	+22.00

Source: UN Predictions

Demographic Challenges

Bull: Where does the UK rank?

Bear: With a population of 67.5 million, the UK is ranked the 21st largest by population and 49th by density. The ONS expects the UK population to increase to 77 million by 2050. This is a little higher than the UN's prediction of 75 million. This compares with a population of 50.4 million in 1950 when 79% of the population was living in cities. The figure is now 91% and is set to creep up to 92% by the end of this decade.

Bull: Hold on a sec … where's my calculator? Okay … so, in 1950, just over 39 million people were living in UK cities. By 2050, that number will be around 71 million. Wow! No wonder there has been so much house building and commercial construction.

Bear: Yes. And there is a lot more to come too. The additional 10 million people who are going to be living in the UK over the next twenty-eight years is the equivalent to another London and Birmingham combined.

Bull: That's good for us then, isn't it? The property sector is going to be busy, busy, busy. Happy days!

Bear: Yes, it is. However, the issues we are going to have to resolve will be about what, where, when and how.

Bull: I can see that. But if we are going to have any chance of meeting this demand, we really must get the planning system working properly again. With the current lack of staff and endless consultations and deferrals, the sector is in danger of grinding to a complete halt. And whilst I am at it, did you know that we are now onto our twenty-first Housing minister over the last twenty-five years. It's absurd. The latest one, Stuart Andrew was in post for just 148 days! And I am not even going to bother to tell you the name of the new one as I expect he will be a gonna when the next PM choses the new cabinet.

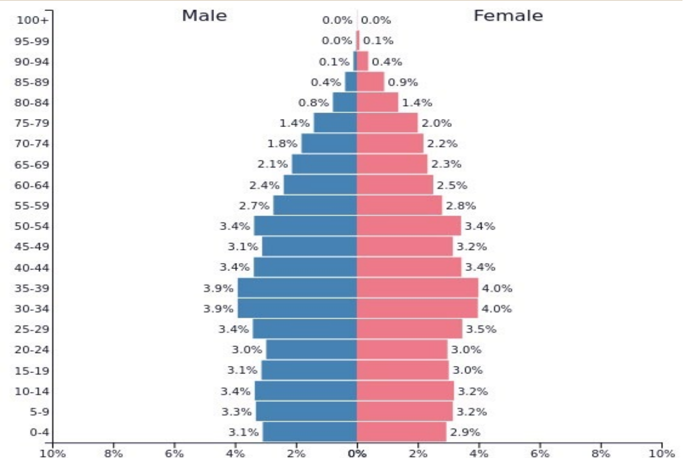
Bear: All fair points, Bull.

Bull: Does this mean that the ageing population problem you have been droning on about for ever has gone away?

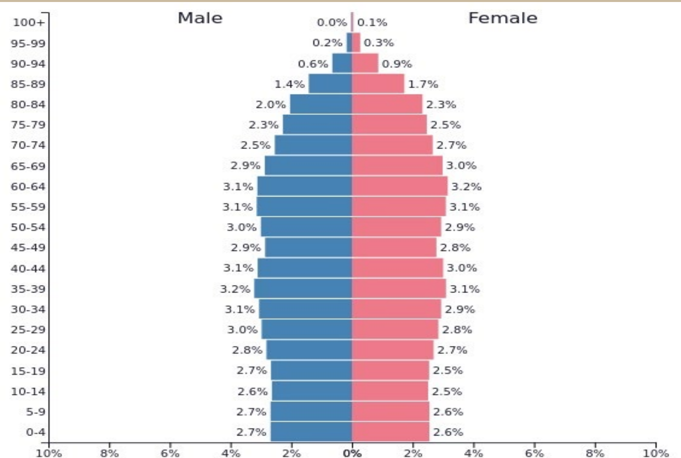
Bear: Absolutely not. The share of the global population aged 65 years plus is expected to rise from 10% to 16% by 2050. In the UK, it is even higher. The two pyramids for 2000 and 2050 show how our demographic profile is changing. The total population over sixty-five in 2000 was 16%. By 2050 it will be 25%. And the working population (20-65) will diminish from 59% to 54%. This will inevitably hit economic growth and public finances.

Bull: That's emphatic, isn't it? Recognising that (proportionately) there will be many fewer worker-bees around to pay for the elderly, that is likely to translate into later retirement, longer working hours, higher taxes and/or more immigration. And from a property standpoint, I guess it means a requirement for more retirement living and healthcare space.

Bear: Yes, it does. And more infrastructure too. All in all, it is going to be tricky as we are already on the tipping point of power and water supply.



Source: Population Pyramid



Source: Population Pyramid

Bull: Which leads me on nicely to another little snippet that you may find interesting, especially after all the warm weather we have had recently. Did you know that, from January to June, England and Wales recorded the least amount of rain since the summer 1976?

Bear: Here we go. What half-baked idea have you come up with this time?

Bull: Well, you know how hot and sweaty it has been recently, I have been thinking about how we could capture and convert our perspiration into water?

Demographic Challenges

Bear: Bull … that's disgusting.

Bull: Yes, it maybe. However, a Swedish company, Deportivo, has beaten me to it. In conjunction with UNICEF, they have adapted NASA technology to invent a 'spin-drier' that extracts sweat from clothing, exposes it to UV light and then filters it to remove the salt and bacteria. It then funnels it through a coffee-type filter to remove clothing fibres. Apparently, it tastes fine, albeit a bit perfume-y!

Bear: Is it viable though?

Bull: It maybe.

Bear: Fair dos.

Bull: Can I tempt you to another pint of this new brew?

Bear: Oh no! You are not telling me ….

Bull: That's for me to know and you to find out. Enjoy your Sunday.

Summer Lull?

After returning from their summer holidays, Bull and Bear meet up to review the latest UK property news.

Bull: So, Bear. How was your holiday?

Bear: Good thanks. But you know me. I'm never 100% happy. Firstly, it was way too hot for us. Then our return flight was delayed by five hours. And it ended with chaos at Passport Control. Given the weather here this summer, we would have been better to have a staycation instead.

Bull: It's great to see that after a few weeks in the sun, your negative perspective on life hasn't changed! Anyway, a staycation would have cost you an arm and a leg, and we all know how tight you are.

Bear: True. It was, I must admit, good to escape the domestic news for a few weeks. All that negativity before we left was beginning to get me down.

Bull: Get you down? Don't you mean get you even more down? But I know what you mean. A few weeks away from everything was just what the doctor ordered. I now feel I can attack the remainder of this year with a real spring in my step.

Bear: It sounds like you are still suffering from severe heat stroke, Bull. I've spent the last few days trying to catch up with everything and I'm still searching to find some positive news.

Bull: Well, you've clearly not seen how my Fantasy League team has started the new season. That's been very positive indeed!

Bear: Whatever. A trail of all the news outlets paints a pretty depressing picture, if you ask me.

Bull: Go on then. Make your case.

Bear: This is easy. The ongoing cost of living crisis. Citizens Advice say this is having a greater impact on people's lives than the pandemic. Ofgem announced on Friday that the typical household energy bill will hit a whopping £3,549 a year from the beginning of October. Inflation hit 10.1% in July, five times the Bank of England's target, and it could, apparently, reach 13% before the end of the year. Do you want me to continue?

Bull: Uhmm... not really, no.

Bear: Okay. The ongoing war in Ukraine. Putin signed a decree this week which could see 137,000 service personnel added to Russia's armed forces in the coming months. That's hardly reassuring, is it?

Bull: Nope. Is there anything else on your 'list of doom'?

Bear: Strikes. Rail, tube, bus, mail, barristers. You name it, they are striking. Droughts. Along with a large part of South-West Wales, ten areas of England are currently in drought. Political infighting. The Conservative Party continue to work out who they want as their new leader and our new PM. And to top it all off, Britney Spears has just released her first new music since 2016!

Bull: Okay, okay. I get the message. But given that huge swathes of our readership will still be away enjoying the last few days of their summer holidays, I propose that we address these issues in the coming weeks. Instead let's focus on the news stories coming out of the UK property market over the last month or so. Although it is peak holiday season, lots of interesting property-related research has been circulated.

Bear: I like that idea. I'll start. The talk of a recession and the rising cost of debt exerted an increased influence on investor sentiment in July. According to Savills, five sectors reported outward yield shifts of 25 basis points in July, up on the three in June, bringing their average prime yield to 4.88%. Likewise, the number of sectors reporting upward pressure also increased from three to eight.

Prime Investment Yields			
Sector	July 2021	June 2022	July 2022
West End Offices	3.25%	3.25%	3.25%
City Offices	4.00%	4.00%	4.00%
South East Offices	5.50%	5.25%	5.25%
Provincial Offices	5.00%	4.75%	4.75%
High Street Retail	6.75%	6.00%	6.00%
Shopping Centres	7.50%	7.50%	7.50%
Retail Warehouses (Open A1)	6.00%	4.75%	5.00%
Retail Warehouses (Restricted)	6.25%	4.75%	5.00%
Foodstore (OMR)	4.50%	4.25%	4.50%
Industrial / Distribution	3.50%	3.50%	3.75%
Industrial Multi-lets	3.25%	3.50%	3.75%
Leisure Parks	7.50%	6.75%	6.75%
London Leased (core) Hotels	3.50%	3.50%	3.50%

Source: Savills, August 2022

Bull: Trust you to start with a negative news story. Right, my go next. Take-up activity for warehouse units over 100,000 sq. ft. reached 10.1 million sq. ft. in Q2 2022. And all industrial rents rose by 2.6% quarter-on-quarter in Q2.

ST BRIDE'S MANAGERS

Bull and Bear

Summer Lull?

Bear: Trust you to start with a positive news story! Whilst that may well be the case, logistics and industrial yields have softened by 25 bps over the last month. Buyers have paused and industrial stock levels have increased. According to Colliers, £580m of industrials transacted during July. That was well below the five-year monthly average of £1bn.

Bull: I acknowledge that, and it seems to be a similar story for the whole of the property investment market. After a strong first half of the year during which almost £33bn was transacted, July data points to a significant slowdown in investment activity. The preliminary July monthly figure of £2bn is the weakest since August 2020 and down from a monthly average of £5.4bn during the first six months of 2022.

Bear: That is stark! Retail investment volumes were particularly weak in July, weren't they? Preliminary data suggests that only £40m was transacted. This is only a fraction of the £520m five-year monthly average.

Bull: The numbers speak volumes, although, having reflected on it, it's not that surprising really. There are already clear signs that rising inflation and the cost-of-living crisis are having an impact on shoppers, with June's retail sales volumes down 6% compared to June 2021 and monthly data shows a decline in six of the past eight months. The GfK consumer confidence index is also at a record low. It's no wonder investors for retail assets are being exceptionally wary.

Bear: Retail investments are not an isolated case though. Office investment has also slowed, down from £1.1bn in June to £840m in July. This is well below the five-year monthly average of £1.6bn.

Bull: True. But there were still some large transactions completed. The Department for Transport's offices in London sold for £248m at an initial yield of 3.25%. Legal & General also acquired 3-8 Whitehall Place for £155m (at 3.50%). Investors are still willing to deploy capital in offices.

Bear: In London maybe, but office investment activity outside of the capital was very limited in July. Letting activity up and down the country has also slowed markedly in recent months and this summer holiday period is only likely to have exacerbated things.

Bull: That's true. But rental levels for best-in-class office space have continued to rise over the summer. Prime office rents now stand at £34.00 psf in Leeds, £38.50 psf in Manchester and £42.50 psf in Bristol. The letting numbers for H1 2022 were also extremely encouraging across the London office market.

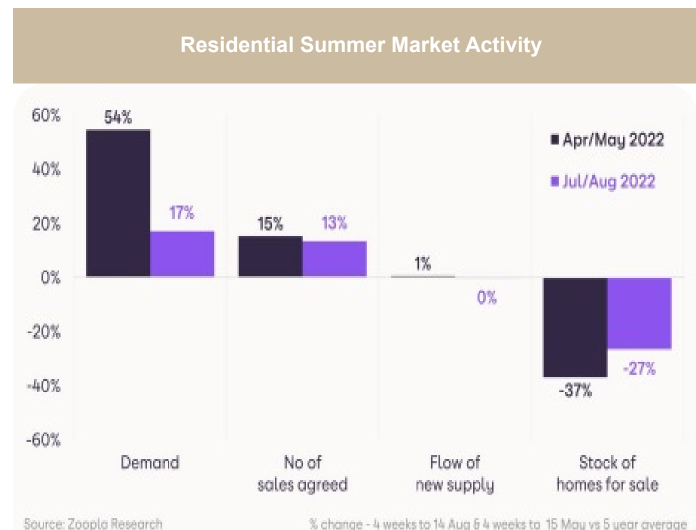
Bear: I did read that, but I also read that office occupancy in London fell by around a third during the summer's heatwave and rail strikes! Off a pretty low base too. The impact of hybrid-working is going to continue to impact space commitments, you just watch.

Bull: I can't disagree with you. So, what other property news stories have caught your eye?

Bear: I was rather surprised to read that UK annual house price growth remained in double digits in July. Given the obvious economic headwinds, I was suspecting to see a noticeable moderation.

Bull: Perhaps, but the Hometrack UK House Price Index which was released on Friday morning states that new house sales volumes are holding up, supporting headline price growth. The residential market is far from doom and gloom by all accounts.

Bear: I read that report too. But what you have failed to mention is that demand has weakened over the summer and that higher mortgage rates are likely to have an impact on activity and prices, especially in higher value areas.



Bull: I must have missed that part of the report!

Bear: Of course you did!

Bull: Whilst I accept that there may be some question marks regarding the residential market, the student accommodation sector, however, appears to remain in rude health.

Bear: Really?

Bull: Indeed. There is a real confidence for the upcoming 2022/2023 academic year, with UCAS publishing record applicant figures and operators reporting bookings ahead of pre-pandemic levels.

Bear: Well, let's hope all the students provide a much-needed boost to the languishing leisure market!

Bull: Fat chance! According to some research I read yesterday from digital pension provider Penfold, the average price of a London pint could climb to a staggering £13.98 by 2025.

Bear: £13.98? That's ridiculous. That's outrageous scaremongering. Even so, just in case, let's end our chat now and get stuck in. After all it's a Bank Holiday tomorrow!

Bull: That's the spirit, Bear. A pint of the usual please.

Green Premiums

On the back of a study by CBRE entitled 'The Value of Green Building Features', Bull and Bear discuss whether Green premiums really exist, how much they are worth, and what the findings mean for investors.

Bear: Are you sporting a brand new leather jacket and a pair of skinny jeans, Bull? That feels rather extravagant in the middle of a cost of living crisis.

Bull: So you like the outfit then?

Bear: Errrr….

Bull: I thought I'd spoil myself early ahead of tomorrow's big pay out. I took a flutter on Liz Truss becoming the new PM way back when Penny Mordaunt was still a genuine contender. And by tomorrow afternoon, I'll have been proved right.

Bear: Sounds like the drinks are on you then. There's no way Mrs Bear will be sanctioning any new clothes for me this autumn. Our weekly food shop is going through the roof and the prospect of spiralling energy costs is all rather concerning.

Bull: Well at least you've got a healthy covering of fur to keep you warm! Did you hear what Boris Johnson's parting words of advice were to help with the cost of living squeeze? Go out and buy a new kettle.

Bear: Really?

Bull: According to Boris, it could save you up to £10 a year on your energy bills. Although the kettle itself might cost rather more than that. Social media has gone crazy at the suggestion!

Bear: That does sound rather insensitive, but haven't his words been taken slightly out of context? He used the analogy of the kettle to justify the Government's outlay on a new nuclear plant. An expensive capital commitment, but with a longer term pay off.

Bull: Which links in rather nicely with today's topic of discussion.

Bear: The pros and cons of nuclear power?!

Bull: No, Bear. The benefits, or otherwise, in investing in green features. We've finally got the conclusive proof we were looking for that green buildings command substantial premiums.

Bear: We have? All the reports I've seen previously are pretty lightweight on the evidence.

Bull: Not this time. Those clever bods at CBRE have done some in-depth analysis on the value of green building features. The report concludes (and I quote): 'There is clear evidence of a green premium in both attitudinal surveys and quantitative analysis'. Boom! It's there in black and white.

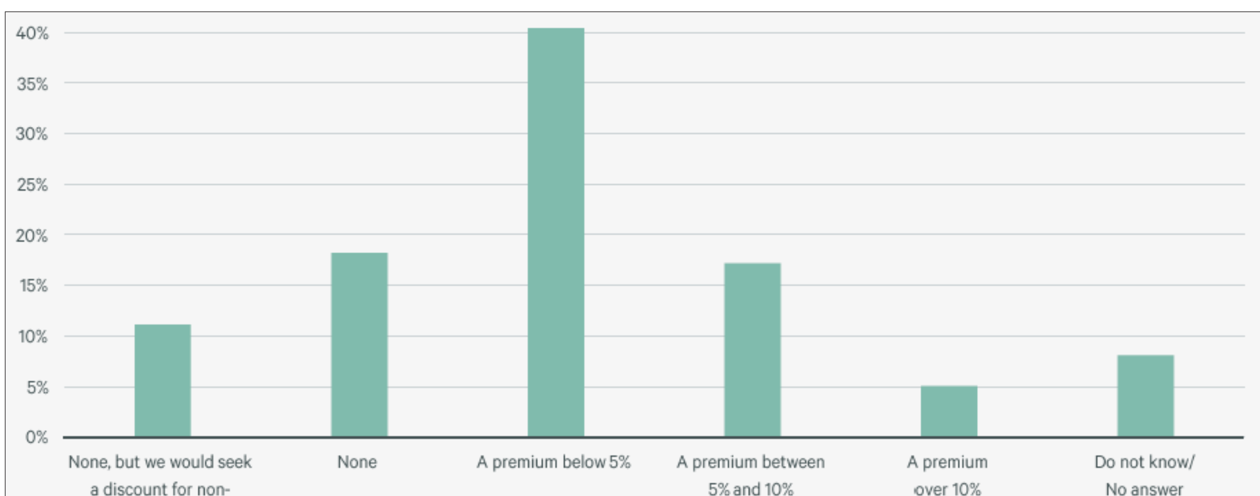
Bear: Hold on a second, Bull. If you could be bothered to read beyond line two of the Executive Summary, you might have spotted that there are also, 'issues with the evidence base, including significant gaps, methodological problems and a wide margin of error'. That's hardly definitive.

Bull: Those are just standard caveats for an academic research paper, Bear. The statistics tell the story. Apparently 29% of large UK businesses are prepared to pay a higher rent for an office with reduced environmental impact…'. Occupiers are actively seeking out buildings with green features. And they are willing to pay for them.

Bear: On the proviso 'they see a benefit in reduced service charges or energy bills.' Honestly Bull, talk about manipulating statistics to back up your argument. You haven't even read the whole sentence this time!

Bull: Well, try this figure then. According to the report, '62% of European logistics occupiers say that they would be willing to pay a rental premium for green building certification'. That's a pretty high percentage don't you think?

Percentage of European Logistics Operators willing to pay a 'premium' rent for green certification for new buildings



Source: CBRE Research August 2022

Green Premiums

Bear: Hmmm. It's one thing to tick a box in a survey saying you are 'willing' to pay a premium. And rather another to do so in practice. You have to take these figures with a pinch of salt. Besides, two thirds of the logistics occupiers who said they are willing to pay a premium are only willing to pay a premium if it is below 5%.

Bull: It's still a premium, Bear. Consumers, occupiers, landlords; they all want green features or green building certification.

Bear: Okay. I think we may need to take a step back here. Firstly, what do we classify as a "green building" or more specifically a "green building feature"? We are arguing over whether there is a premium without agreeing the definition of "green"!

Bull: That's easy, Bear. Solar panels, air source heat pumps, bike parking provision, bat boxes, bug hotels, planting of biodiversity areas; all those sorts of things.

Bear: Yes, Bull. All worthy. But rather than list all the "green features" you can think of, it may be more helpful to spell out CBRE's definition. They define a green feature as 'anything which contributes to environmental sustainability, such as tackling climate change or adapting to its effects, improving biodiversity, or reducing waste and water usage.'

Bull: Which is exactly the objective of all those items on my list! Just rather more neatly summarised.

Bear: Thank you.

Bull: I do have one question though. What about all those lovely wellness initiatives you see in offices, like break-out areas for my yoga and pilates sessions, or smart shower and changing facilities? If I am going to pay a top rent for a smart new office building, I don't just want the "green features". I want the whole lot.

Bear: Ah hah. That's where the nuances come in, Bull. It's hard to separate out the value that occupiers attribute to specifically green features from the other characteristics of prime buildings.

Bull: True.

Bear: And secondly, the picture is rather muddled by a focus on building certifications, rather than the actual underlying environmental performance of a building. The cynic in me would say that occupiers and investors are more interested in the certification 'badge' than giving much thought to whether the building delivers better environmental performance.

Bull: Well, I think it's time we looked at the actual quantified evidence. CBRE have ploughed through a number of 'meta studies' on the topic and have found that the typical rental premium for a green certified building compared with the rest of the market is 6% to 8%...

Bear: If you ignore the holes in the evidence base.

Bull: And, if you'll stop interrupting, the typical capital value premium is 8% to 16%. We are not talking 1% or 2%. These figures are material. You can't still sit there and dispute the evidence, can you??

Bear: All I am doing, my dear Bull, is advising caution when interpreting these figures. The majority of the evidence is from the UK and the US office markets. The evidence across Europe and other real estate sectors is much thinner. And what's more, the evidence is again focused on the value of green building certifications.

Bull: You really are being unusually stubborn on this one, Bear. All I set out to do was demonstrate that the 'green premium' exists. And the international evidence clearly implies that green buildings command both premium rents and capital value premiums.

Bear: Gross or net premiums?

Bull: What do you mean?

Bear: Have you properly accounted for all the costs in delivering these green features? We know from bitter experience that things like LED lighting and air source heat pumps don't come free. Someone has got to foot the bill.

Bull: That's a fair point, Bear, but even after accounting for costs my argument still stands. According to the CBRE Research team, assets with green building certifications command a 'net' capital value premium of around 6%. Or at least that's a reasonable global rule of thumb.

Bear: They also stated in the report that the 'margin of error' here is larger than this potential gain. I just think we need to treat any attempt to quantify the premiums with the utmost caution.

Bull: Fine! How about we agree that there is clear evidence of a 'green premium' but we just can't put any actual figure on it. Does that satisfy you?

Bear: Not quite. You are ignoring one more vital point.

Bull: I am?

Bear: Yes. Any green premium is likely to decline over time as the number of certified buildings increases. By definition, a premium is paid for a scarce resource!

Bull: So, what are you saying? Buildings with green features will command a premium, but only whilst supply catches up.

Bear: Precisely. As green certification becomes the norm the premium that a green building commands will reduce.

Bull: I give up. It doesn't sound like there is much point doing anything at all then!

Green Premiums

Bear: Wrong, Bull. What CBRE rightly conclude is that investors who fail to take action to deliver the necessary environmental sustainability measures for a building run the risk of building obsolescence.

Bull: And a corresponding loss in value?

Bear: Exactly, Bull. There will ultimately be discounts applied for the absence of these green building features.

Bull: So whilst, we may not quite agree on the quantum of the green premiums, we can agree that investors still need to implement the necessary sustainability enhancements to protect the value of their assets.

Bear: 100%. Investors need to approach this whole topic from a different perspective. It's not necessarily about achieving a "premium" rent or price for a building. It's about ensuring that it doesn't fall behind the standards of environmental performance demanded by occupiers.

Bull: Sounds like landlords need to be prepared to open their wallets! But I guess these sustainable features provide other benefits. There is evidence that green office buildings, for example, lease faster than the competition and enjoy lower vacancy rates.

Bear: They enjoy lower operating costs too. Tenants may even agree to co-invest with the landlord to implement green features so the burden doesn't sit automatically with the investor.

Bull: And there is one other fundamental issue we have seemingly ignored.

Bear: Which is?

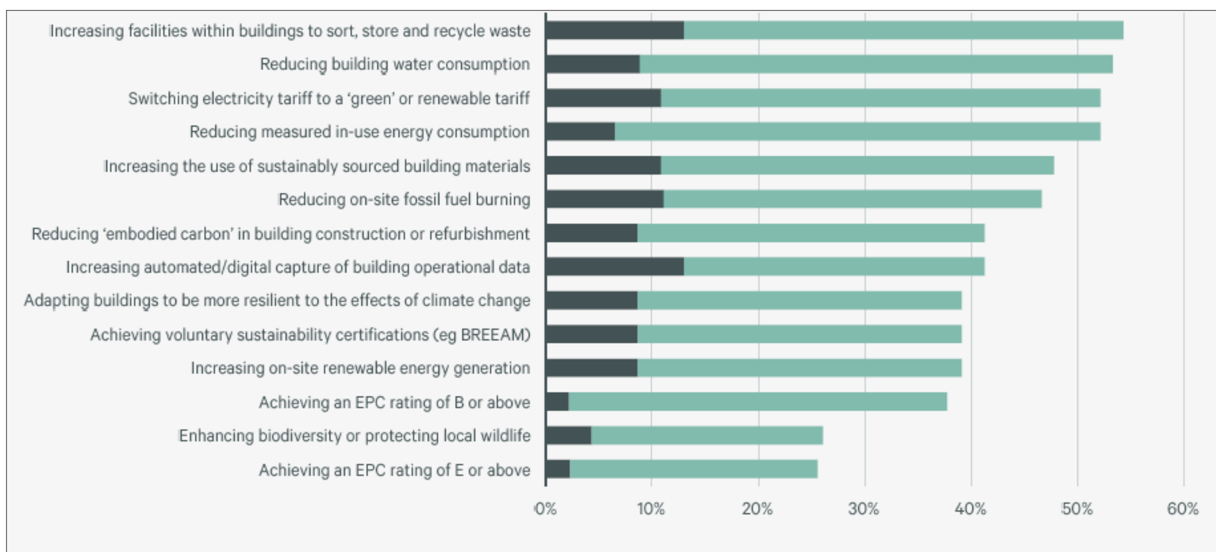
Bull: If we put aside all the valuation arguments about the quantum of "green premiums" or "brown discounts", the simple fact is that enhancing the sustainable characteristics of all building stock is the right thing to do.

Bear: I couldn't agree more, Bull. Not everything we do as an industry should be expressed in purely financial terms.

Bull: And on that bombshell, I think we deserve a stiff drink.

Bear: You are paying, remember. Just be careful walking to the bar in those skinny jeans. We don't want any embarrassing accidents!

Percentage of UK occupiers who would pay at least what it cost the landlord to provide selected green features



Source: CBRE Research August 2022

Thankfulness and Factfulness

Bull believes we should beware being overly influenced by non-stop negative news feeds.

Bear: Good morning, Bull. We simply can't start our usual morning discussion without first saying a huge 'Thank You' to HM The Queen. Her dedication and her steadfastness were phenomenal.

Bull: I completely agree. It is an unbelievably sad and sombre time for everyone.

Bear: Would it be inappropriate to give a toast?

Bull: Not at all … and, of course, to our new King. Together: ''The Queen … Thank you for such fantastic out-performance over one, three and every time period you can think of, for the past seventy years''.

Bear: Bravo. So, what have you been up to over the past week?

Bull: I have just read a fascinating book entitled *Factfulness* by the late Hans Rosling, a Swedish medical doctor and a former adviser to the WHO and UNICEF.

Bear: Oh yeah! It's not like you to focus on facts. I thought you were more of a 'gut-feel' sort of bloke.

Bull: I am normally. But this book is very compelling. Dr Rosling argues that we are all caught up in a spiral of misapprehension largely fuelled by the western media and commentators (like you) who appear determined to pedal ever depressing and dramatic news.

Bear: Okay. I can already get a whiff of what's coming. This is an attempt by some random Scandinavian quack to put me and my fellow Bears out of business, isn't it?

Bull: No, of course it isn't. But we are talking facts here, Bear. And you love facts. Even Bill Gates has said that he found *Factfulness* to be ''one of the most important books" he'd ever read.

Bear: I must admit that I have become rather weary of how easily the media trots out the likes of … catastrophe, crisis, disaster, meltdown and wipe-out.

Bull: That's exactly my point. We really need to keep things in perspective. In the table below there are three multiple choice questions that Dr Rosling regularly posed. Write down on this beer mat which answers you believe are correct (A, B or C). I will give you one mark for every one you get right.

Bear: Really? And should our readers have a go too?!

Bull: Yes. It will only take a couple of seconds.

Bear: Okay. Let me think … mmm … alright … done … here you go.

Bull: Let me have a look. Congratulations Bear. In traditional Eurovision Song Contest parlance, you have scored nul points! The correct answers are:

1 = 9 years. It is a fallacy that girls receive significantly less education than boys. The fact is that we have been heavily influenced by adverse reports such as the Taliban regime in Afghanistan.

2 = Almost halved; Whilst the news briefings we see on our TV's are always heart-wrenching, the amount of extreme poverty in the world has almost halved over the past couple of decades.

3 = More adults. In much of the West, we are beginning to see a rise in the number of older people. Across the world though, with a birth rate that is falling sharply, the world's population will be most influenced by the increase in the number of adults. Whilst everyone will need to be fed and watered, this enlarged workforce will have the capacity to massively expand the global economy.

Bear: I didn't do very well, did I? I am rather embarrassed by my answers.

	Questions	Answer A	Answer B	Answer C
1	World-wide, 30-year-old men have spent ten years in school, on average. How many years have women of the same age spent in school?	9	6	3
2	In the twenty years up to 2017, the proportion of the world population living in extreme poverty …	Almost doubled	Remained more or less the same	Almost halved
3	The UN predicts that by 2100 the world population will have increased by another 4 billion people. What is the main reason?	There will be more children (age below 15)	There will be more adults (age 15 - 74)	There will be more old people (age over 75)

Source: *Factfulness*, UNICEF

Thankfulness and Factfulness

Bull: To be fair, you were no worse than the smarty-pants attending Davos or the results of a UK MORI poll where the results showed that hardly anyone got the answers correct. The trouble is that we are conditioned by the constant bombardment of bad news. Apparently, good news doesn't sell newspapers!

Percentage of UK MORI Poll who answered the questions correctly	
Girls' Education	19%
Extreme Poverty	9%
Adult Growth	22%

Source: *Factfulness*

Bear: But here at home, in the financial and capital markets, things are bad. High inflation, falling sterling, high borrowing rates, softer property yields, transactions falling out of bed left, right and centre ...

Bull: Stop! Don't you see? You are falling into the same old doomsday trap again. Why not try and think of it this way:

- Whilst we must all accept that inflation is generally erosive, property has a respectable track-record of acting as a hedge against inflation.
- For dollar-denominated overseas investors, a weaker pound makes UK assets look cheaper.
- UK property companies and funds have been noticeably more conservative in their approach to borrowing since the GFC. Moreover, a decent chunk of their outstanding debt is fixed for the next couple of years.
- At the same time, higher borrowing rates mean more attractive savings rates.
- We all know that property yields are softening, but even now, they still show a decent spread over 10-year gilts.

The bottom line, Bear, is that there is always another side of the coin. So, with that in mind, where would you rather invest your money now? In cash, real assets or in paper?

Bear: You know that I am always going to say real assets. Even though I am a bear, I am still a property buff.

Bull: Of course, you are. And with good reason. Consider this:

- Equities: Recently, the FTSE 100 Index has been up and down like a yo-yo. In mid-September 2021, it hit a twelve-month low of 6,909. It then rocketed to a high of 7,672 in February, before stumbling back down again to 7,016 in June. That's a low-to-high range of 11%. It closed on Friday at 7,351. That amount of volatility is scary and the index still only yields 3.67%.
- Gilts: They have taken a massive battering over the past twelve months. On 20 August 2021, ten-year gilts, our key investment comparator, stood at just 0.52%. They closed on Friday at 3.05%.
- Property: Whilst a recent softening of yields saw capital values across the sector fall by 1.60% in August, the CBRE Monthly Index still indicates a total return of 8.00% for All Commercial Property for the first eight months of 2022. And the MSCI All Property Yield is still an attractive 4.25%.

Bear: So, what you are saying is that property is still a good bet?

Bull: That is exactly what I am saying. Let's face it, the property sector has enjoyed a purple patch over the past five years. The MSCI/IPD returns have been outstanding, showing consistent outperformance over the other traditional asset classes. But most of all, the income return has remained attractive. Even now, the spread of the MSCI/IPD Quarterly All Property Income Return over gilts is a handsome 1.20%.

Bear: True, but with tenants' operating expenses being hammered by inflation and their COVID support structure ending, corporate failures are already on the rise. I would feel much more comfortable if the spread was 2%+. And for the All Property Income Return to increase to 5.00% pa, capital values would have to fall by c.10%.

Bull: There you go again! Ol' Mr Misery-Boots. Haven't you grasped anything I have just been saying? Even if you were to be right and capital values do fall by 10%, the listed Property Company sector might think that was a pretty decent result. After all, their sector discount is more than double that figure at present.

Bear: And with a cheap pound to tempt them in, I suppose that would mean a queue of US private equity funds trying to pick up some bargain-basement deals.

Bull: Exactly. So … after everything you have now learned from the late Dr Rosling, I have one last question for you. Is this pint glass of beer half full or half empty?

Bear: That's easy. It's half empty… and I would like you to top it up please.

Bull: I despair!

Homeless Students

After an historic week for the country, Bull and Bear meet up to discuss the ongoing challenges students are facing as they head off to university and they debate the state of the Purpose Built Student Accommodation (PBSA) investment market..

Bull: Hi Bear. How's your week been?

Bear: Not too bad, I suppose. It's certainly been a memorable one. Never in a million years did I think the headline news would be about people queuing for twenty-four hours! It is an absolute triumph for Britishness.

Bull: You know us Brits, Bear. We love a queue. And quite understandably, people have wanted to pay their respects for seventy years of incredible service by the Queen.

Bear: I know it's a bit bonkers but I'm seriously contemplating joining the queue myself once we're done here. If we keep our chat short, I reckon that by the time I make it over to Southwark Park there will still be enough time for me to get through before it ends tomorrow morning.

Bull: If you are serious, let's get cracking. Didn't we agree that we would chat all things students today?

Bear: Yup. We sure did. With huge numbers of students arriving on campuses from about now for Fresher's Weeks, it certainly feels like the opportune time to cover the sector.

Bull: Fresher's Weeks, eh? Those were the glory days! A chance to meet new people, join societies and clubs, acquire more tote bags and free pens than you could ever know what to do with, and, most of all, have some serious fun before all the 'hard work' starts.

Bear: Yes, and let's hope that after a difficult couple of years due to COVID, this year's intake of students can enjoy the full experience.

Bull: I'm sure they will! And hopefully before they end up in the bars (or lecture halls), they will all have found somewhere to live. Some of the stories I've read about the accommodation shortage are horrendous.

Bear: I've must have missed those.

Bull: That's because news stories like these don't feature in the Racing Post! It seems that thousands of students who are meant to be starting courses up and down the country are being left stranded without accommodation. There just aren't enough rooms available in university halls.

Bear: Go on. Name names.

Bull: Well, for example, first-year undergraduates at the University of Glasgow, Manchester Metropolitan University and the University of the West of England (UWE) in Bristol have all been advised that they must find their own rooms. The universities just cannot accommodate them.

Bear: So, what are they going to do?

Bull: Apparently, at UWE, students have been offered accommodation in Newport. That's nearly an hour away on the other side of the River Severn! And, the University of St Andrews has told their freshers to take accommodation in Dundee and commute from there. Meanwhile, Manchester Uni has offered £100 a week to students to cover their commuting costs if they agree to live in Liverpool! The list goes on and on.

Bear: Wow! It's hardly ideal having an hour's cab ride after a late night out, is it?

Bull: Hardly ideal? Without wishing to be overly harsh on the City of Dundee, students who applied to study in St Andrews, chose St Andrews for a reason, didn't they? They didn't choose Dundee!

Bear: Come on. Dundee's not that bad. They make marmalade in Dundee. And I love marmalade.

Bull: Fair dos, but worse still, there are lots of instances where would-be first-year students have been forced to defer their university place this year or drop out completely.

Bear: Blimey. I had absolutely no idea. So, what's caused this crisis?

Bull: It really varies for each university, but overall, the sector has been accused of over-admitting students, yet again. However, the universities have rebutted that argument, saying they have had to balance the problem of housing shortages with the growing demand for higher education. According to UCAS, nearly 426,000 students held university offers on 18 August 2022 when they collected their exam results. That's the second highest total on record. Tens of thousands have since sought places through clearing.

Students accepted on UK degree courses (as of A-level results day)

Source: UCAS

Homeless Students

Bear: But surely the universities knew there was going to be a demographic surge in the number of 18-year-olds?

Bull: Yes, but I just don't think they were prepared for the pandemic and the three years' worth of above-normal A-level marks that has followed. And pressure from record results last year meant that many students chose to defer their places to this year. Hence the current exceptional demand for accommodation.

Bear: So, what's the story on the supply side? I think I recall reading somewhere, (and not in the Racing Post before you say it), that private landlords have been pulling out of the student market and switching to running more lucrative Airbnbs and holiday lets. Is that right?

Bull: Absolutely spot on. There has been a recent surge in landlords hiking up rents far beyond affordable levels for students, effectively forcing them out, only to then convert the would-be homes into more profitable holiday lets. The rental market has shrunk significantly in recent times, not helped, of course, by the increasing legislation for Houses of Multiple Occupation (HMOs).

Bear: It's a bit of a dog's breakfast, isn't it?

Bull: Yes! The situation has also been compounded by a combination of tax and regulatory changes resulting in many private landlords selling up.

Bear: So, surely this is where the universities need to step up? Couldn't they enter more nomination agreements with the private sector?

Bull: Absolutely, they could. The trouble is that despite all the recent construction, there still isn't enough space to go round.

Knight Frank believe that the UK's PBSA sector will reach a combined value of over £72 billion by the end of this year. Last year saw over half of the UK's student accommodation bed stock offered by the private sector, increasing by 39% since 2013. In the UK, 30% of first-year students now live in private PBSA. This has increased from 22% only five years ago.

Bear: Wow. So, it's no great surprise then that institutional investor demand for PBSA remains extremely high.

Bull: Exactly.

Bear: And didn't I read somewhere that £4.1 billion was traded in 2021 and there is still a ton of dry powder targeting the sector? Given its proven track record of income generation, even I can work out that buying into the sector now is a bit of a no-brainer.

Bull: Crikey Bear. You do sound unusually bullish. Have you forgotten about the economic headwinds? Whilst demand is clear, if you look at student accommodation investment yields, the trend, according to CBRE, is weaker. This has been reflected in softer yields since June.

Student Accommodation Investment Yields

Sector	September 2021	June 2022	September 2022
Central London Direct Let	3.75%	3.50%	3.50%
Super Prime Regional Direct Let	4.75%	4.50%	4.50%
Prime Regional Direct Let	5.25%	4.75%	4.75%
Secondary Regional Direct Let	8.00%	8.00%	8.00%
Central London RPI Lease	3.00%	2.75%	3.25%
Super Prime Regional RPI Lease	3.00%	2.75%	3.25%
Prime Regional RPI Lease	3.00%	2.75%	3.25%
Secondary Regional RPI Lease	4.00%	4.00%	4.50%

Source: CBRE, September 2022

Bear: I accept that, but don't forget that it's a similar story pretty much across the whole property board. All property yields are under pressure. And for me, especially in these uncertain times, PBSA investments still look attractive.

Bull: For once I agree with you. Sentiment in the sector has been buoyed by its resilience throughout the pandemic. And furthermore, PBSA should be able to cope reasonably well with this current high inflationary environment. I can't see anything other than the strong investor interest in the sector being maintained.

Bear: Crumbs! That was all rather friendly and uncontentious. And I think we've wrapped this up in time for me to wander down to Southwark Park and join the queue.

Bull: Chop chop, then! If you do manage to get into Westminster Hall in time, please give a nod for me too.

Bear: I sure will. Enjoy your Sunday.

ST BRIDE'S MANAGERS

Bull and Bear

The Truss Effect

The new PM hasn't wasted any time in asserting her Conservative ideology. On the back of the Chancellor's "mini" budget, Bull & Bear discuss what this economic change in direction really means.

Bear: Phew. What a whirlwind of a week, Bull. There have been so many Government policy announcements I can hardly keep up.

Bull: Tell me about it, Bear. Our new PM certainly isn't afraid of shaking things up. You have to admire her conviction.

Bear: I do, Bull. But you know me. I am just nervous that Liz's rather radical shift in economic policy is going to backfire. It's all well and good saying "what I am about is growing the economy", but there are plenty of economists out there who will dispute her methods.

Bull: It does seem like a striking departure from her predecessor. Only a few months' ago, Boris was still championing his "levelling up agenda" and here we are today with a PM who appears to be following an economic ideology that was last championed by Ronald Reagan and Margaret Thatcher back in the 1980s.

Bear: Do you mean, her belief in trickle-down economics, Bull?

Bull: Precisely. Stimulate growth by lowering taxes and deregulation. Truss wants to oversee the most important shift in UK economic policy in decades. The "mini" budget announcement on Friday ended up being the biggest tax cutting event since 1972.

Bear: And all this in the same week that the Government announced a cap on energy prices for businesses at a cost of approximately £25bn. Call me old-fashioned, but whatever happened to the notion of balancing the books?

Bull: That's not the Government's priority right now, Bear. This is all about jump-starting the faltering UK economy. Forget fiscal credibility.

Bear: Okay. I think we need to interrogate this economic policy shift in bite-size chunks. Shall we quickly remind ourselves of the backdrop to Friday's "not-so-mini" budget announcement?

Bull: Well, that is simple enough. The UK economy is stagnating; inflation is running rampant at 9.9% and expected to peak at just under 11% in October; and the Monetary Policy Committee at the Bank of England is still playing catch up on interest rates.

Bear: Hold on a second, Bull. The BoE raised interest rates by a full 50 basis points this last week to 2.25%. That's the highest rate for 14 years.

Bull: And the base rate will be way higher than this in 12 months' time, Bear. Mortgage rates of more than 6% are now a distinct possiblity.

Bear: Just as my mortgage deal is about to expire. Typical!

Bull: Which is exactly why our new Chancellor, Kwasi, has flown in, complete with superhero style mask and cape, to save the day.

Bear: He's going to help with my mortgage payments?

Bull: No, Bear! Mr Kwarteng has just delivered a massive fiscal stimulus to the economy which should mean you have more money in your pocket to cope with those higher mortgage payments. Not to mention those eye-watering utility bills!

Bear: Hit me with the headlines then. I know we usually focus our debates on the property sector, but this week is all about getting to grips with the macro-economics.

Bull: Well, first up, let's talk tax cuts. The basic rate of income tax has been cut to 19p and the 45% top rate of tax for higher earners has been abolished. If you believe the Government's projections, around 31 million people in the UK will end up with £170 or more in their pockets.

Bear: Sounds like good news for higher earners then!

Bull: Now, now Bear. We're not here to get into the politics of it all. That's for the politicians. The principle behind the income tax cut is to stimulate the economy and, in this case, increase discretionary spending. Millions of people in the UK can keep more of what they earn.

Bear: And no doubt the same spirit of generosity lies behind the Government's decision to reverse Rishi's recent rise in National Insurance?

Bull: I suppose that depends on which side of the coin (or should I say ledger) you are sitting on. But, yes, the 1.25% rise in National Insurance will be reversed and the Government is axing the planned levy to fund health and social care. You'll see the result in your November pay packet, Bear!

Bear: Every little helps, as they say, Bear. But surely Mr Kwarteng still needs to find the circa £17bn a year that was expected to help fund the NHS and social care improvements. Not to mention the £5bn giveaway associated with the cuts to the basic rate of income tax. Kwasi appears to have quite a liberal approach when it comes to the Treasury finances!

By Country: Corporate Income Tax Comparison

Country	Tax Rate	Country	Tax Rate
United Kingdom	19.00%	France	25.83%
Switzerland	19.70%	Germany	29.74%
United States	25.81%	Japan	29.83%

Tax Rates based on the combined statutory corporate income tax rate given by each Central Government (Source: OECD).

The Truss Effect

Bull: Mr Kwarteng didn't stop there, Bull. He has also cancelled the planned increase in corporation tax which was due to rise from 19% to 25% next April. The UK will have the lowest rate of corporation tax in the G20. But it does mean foregoing £19bn in tax revenues.

Bear: How much is all this giveaway costing?

Bull: Hold your horses, Bear. We still haven't included the cuts to Stamp Duty (SDLT) aimed at protecting the housing market from the effects of rising interest rates. There are some juicy SDLT savings, particularly for first time buyers.

SDLT Savings Table: First time buyers

Price	SDLT Pre "Budget"	SDLT Post "Budget"	Saving
£200,000	£0	£0	£0
£400,000	£5,000	£0	£5,000
£600,000	£20,000	£17,500	£11,250

Source: HM Treasury

Bear: Those savings look sizeable. But I am worried that these purchase cost savings will be dwarfed by higher borrowing costs if mortgage rates reach the levels you're talking about. But you still haven't answered my question. How much is this fiscal package actually going to cost?

Bull: £45bn. Give or take.

Bear: Give or Take??! Surely the cost and impact of these tax cuts have been analysed in forensic detail.

Bull: We can obsess over what this is likely to cost the Treasury, Bear. But the key question we should be asking is, will this fiscal stimulus raise the trend rate of economic growth to 2.5%? And, ultimately, help to balance the books over the long term.

Bear: So, what's the answer? Will it?

Bull: That's the bit the Government was a bit more hazy on. Given this was only a "mini budget", the Office for Budget Responsibility hasn't yet been able to scrutinise the Chancellor's arithmetic.

Bear: Are you telling me this is all one big gamble?

Bull: I think the Chancellor's convictions are definitely going to be tested over the coming months. Look at the initial reaction from the financial markets for starters.

Bear: I did. Bond yields are soaring, and the pound has dropped to a near four-decade low against the dollar. Sterling was trading below $1.09 on the back of the Chancellor's statement on Friday. That's hardly a reassuring reaction from the financial markets.

Bull: It isn't just the pound that is struggling against the dollar. But, I agree, it certainly reflects investors' concerns that the Government's stimulus package will not only add to the debt burden, but will also add to those inflationary pressures we discussed earlier.

Bear: Which means that the Bank of England will need to raise interest rates further and faster? This approach feels entirely disjointed.

Bull: I must admit that there is a certain irony to the fact that the Chancellor's big tax cuts may force the MPC to raise interest rates even more aggressively. But, then again, we already know that relations between the PM and the Bank of England have been slightly fractious.

Bear: That's certainly true. One of Liz Truss's advisers described the Bank's inflation concerns as "utter rubbish"! But where does all this leave us?

Bull: That's the million-dollar question, Bear. What we can say is that Liz and Kwasi have together thrown everything (including the kitchen sink!) at a plan to stimulate a faltering economy that may already be technically in recession.

Bear: And let's not forget that they've also taken interventionist action to shield households and businesses from the worst impacts of the energy crisis. Or at least for a period, anyway.

Bull: Both of which should, in theory, provide a platform for growth. Or, at the very least, avert a more protracted recession.

Bear: But what about the longer term, Bull? The Government's plan appears to rely heavily on achieving some aspirational growth targets for the economy.

Bull: Well, that depends on whether you are true believer in the free-market economy and the idea that low-tax, light-touch regulation, small-state economies will deliver.

Bear: It feels like a gamble to me, Bull. But, then again, I am more in the "bean counter" mould. I always like to have a few coins in my piggy bank for a rainy day.

Bull: Enough to buy us a couple of pints at the St Bride's Tavern, Bear?? With inflation running at close to 10% there's no point in squirreling your coins away.

Bear: I knew I shouldn't have mentioned the piggy bank. Come on then. I am sure I can shout you one drink. I suppose your wallet's mysteriously gone missing again?

Where the heck are we?

Bull: I'm in deep shock.

Bear: I bet you are. Just look at the chaos in the financial markets.

Bull: No, it's not that. In issue 432 of *The Weekly*, at the end of July, I confidently estimated that there were ten quadrillion ants in the world. Now, some smart-Alec from the University of Wurzburg reckons there are twice as many – twenty quadrillion. He has out-bulled me! And, at the beginning of September, I announced that, whilst property yields were softening, they still showed a decent spread over ten-year gilts. And just look what has happened since! In less than a month I have lost all credibility.

Bear: Don't be too hard on yourself. Even so, I don't think anyone would argue that we are now firmly in classic Bear territory.

Bull: Go on, then. Have your moment of glory. But please don't go off on a miserable rant without reaching a conclusion. We all want to know where the heck we are heading.

Bear: Okay. We need to address the economy, interest rates, sterling, the equities market, gilts, inflation, the listed REITs/ property company sector and, of course, property values/yields.

Bull: That's a long old list. Can't you just cut to the chase and give us the abbreviated version?

Bear: The trouble is, Bull, it's like a perfect storm. The economy is heading rapidly southwards, made worse by sky-high inflation. The Bank of England is mandated to get inflation down and the only weapons at their disposal are interest rate hikes and/or QE (buying Government gilts). In stark contrast though, the new Government is going hell for leather for growth via tax giveaways.

Bull: What's wrong with that?

Bear: Under more benign circumstances, nothing. But they are having to borrow (heavily) to pay for their proposed tax cuts. And their plans will almost certainly stoke up further inflation.

Bull: So … are you telling me that the Government and the Bank of England are trying to achieve the exact opposite to each other?

Bear: That's exactly what I am saying. It's bizarre, perilous, and unsustainable. Someone will need to back down because it has properly spooked the markets. The FTSE 250 (which is the best representation of the UK economy) reached 22,207 on 10 February 2022, and the index is off 26.9% since the start of the year. And look what has happened to sterling! It's down 17.7% against the US dollar. It's hardly surprising that some people are starting to call the UK a basket case!

Bull: All the markets have taken a pasting, haven't they?

Bear: Yes. But it's the sharp increase in gilt yields and interest rates that are most disconcerting to the property market. I have spoken to three of the sector's 'wise men' over the past week and they are all predicting/forecasting hefty declines in capital values ranging (overall) from minus 10% to minus 20% (from 30 June 2022 valuations).

	31.12.21	10.02.22	30.06.22	31.08.22	30.09.22	Change since start of year
FTSE 100 Index	7,384	7,672	7,169	7,284	6,909	-6.4%
FTSE 250 Index	23,480	22,207	18,666	19,063	17,164	-26.9%
Base Rate (%)	0.25	0.50	1.25	1.75	2.25	2.0%
10-Year Gilts (%)	0.97	1.53	2.24	2.80	4.06	3.1%
£ / $US	1.35	1.36	1.22	1.16	1.11	-17.7%
£ / Euro	1.19	1.18	1.16	1.16	1.14	-4.2%

Source: Financial Times

Bull: But why? We don't have a mass oversupply of vacant space.

Bear: No, we don't. But there are five reasons, in my opinion, why a fall in property capital values is now inevitable.

1. The spread between property and gilt yields has vanished and needs to be restored, at least in part.
2. The yield on shares is getting unusually close to the MSCI All Property Yield of 4.25% (June 2022).
3. Higher borrowing rates affect net cash flow on investments and developments. Lower values are required to maintain parity of returns.
4. Despite the recently announced stamp duty savings, higher mortgage rates are bound to trigger lower house prices.
5. Property will be a major loser as pension funds rebalance their portfolios in line with their long-term strategies.

Bull: I get your first four reasons, but what does the fifth one mean?

Bear: Basically, because the institutions' equity and fixed income portfolios have fallen in value, this has (inadvertently) pushed their property weightings above their long-term targets. So, they will need to sell some property assets to correct the position.

Bull: That's madness. So, property is being penalised for performing so well?

Bear: Basically, yes. But we shouldn't be surprised, it has always been like this. And let's face it, we all thought it was only a matter of time before gilt yields would revert to 'norm'. We just didn't expect it to come in one almighty rush.

Bull: So, what happens now?

Where the heck are we?

Bear: Several things, I reckon.

- Firstly, valuations will be marked down. But some sectors will be more severely treated than others.
- Secondly, active buyers will either pull their deal(s) or renegotiate the price(s).
- Thirdly, some banking covenants (especially LTV) will be breached, offering the banks the classic opportunity to enforce a higher borrowing rate or call-in the loan.
- And fourthly, retail investors will exit open-ended funds … almost certainly leading to another round of 'gating' and yet another inquiry as to the viability of illiquid property funds for private investors.

Bull: You are loving this, aren't you? You are in your absolute element.

Bear: Nope, not a bit of it. But you do have to face the facts … the property market's purple patch of double-digit returns, assisted by cheap finance, is now over. And that's not all. You are going to have to whistle for rental growth too.

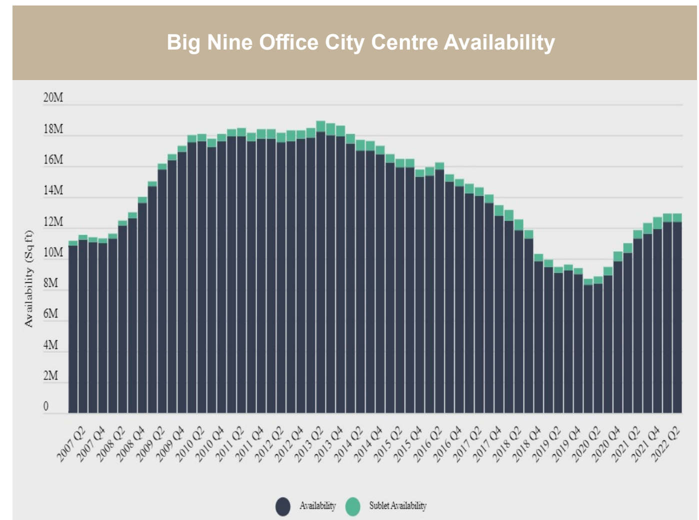
Bull: What? I am not going to let you get away with that! There is still plenty of rental growth left in the pipeline in the industrial and student sectors, and residential rents are inevitably going to rise too if the dynamics of buying houses gets tougher. What's more, the life-science sector remains hot-to-trot.

Bear: But you have conveniently forgotten about offices and retail. That is where the trouble lies. Everyone knows about the problems of retail, so I am not going to rehearse that line again. But offices … just think about it:

- In order to meet energy efficiency requirements, significant capex is going to be required.
- Corporate tenants are starting to come under pressure from higher borrowing costs, a weaker pound, inflation (especially electricity/gas) and all the normal pressures that come with a recession. Corporate failures are already on the rise … and it's only going to get worse.
- The release of swathes of unrequired space as tenants come to terms with the fact that (at least a degree of) hybrid working and/or redundancies are inevitable.

Bull: You are having a laugh! The one thing that we don't have is an over-supply of office space.

Bear: But, if the upcoming recession bites hard enough, the current upward trend (as evident in the Avison Young chart opposite) will continue to such a point that it will become a tenant's market. And we know what happens then… rents fall.



Source: Avison Young, Q2 2022

Bull: Stop. I can't take any more of this. The world cannot have turned so completely upside down in the space of just a month! I refuse to accept that there aren't any bright spots out there.

Bear: Yes … there are. Two areas that immediately spring to mind are:

- Public to private. Listed REITs and property companies are currently trading at a sector average discount of 36%, compared to a premium of 11% at the start of the year. If you add in the devaluation of sterling from a dollar-denominated investors point of view, that looks very tasty indeed.
- Lending. With the banks now taking a cautious stance on lending, and likely to want to off-load some of their loan books (at a discount), there is definitely room for the debt funds to step in and pick up a few decent deals.

Bull: Is that it? Are you done?

Bear: Yes. I am afraid that it isn't going to be very pretty until we know the outcome of the punch-up between Andrew Bailey (in the red corner) and Liz Truss/ Kwasi Kwateng (in the very blue corner).

Bull: Oh dear!

Bear: Fancy another drink?

Bull: Yes please. You had better make it a double!

ST BRIDE'S MANAGERS

Bull and Bear

Is the House Party Over?

Bull: So, Bear, how's your week been?

Bear: It's been a mixed one, to be honest. The Boost vs St Bride's Golf Day on Thursday was a definite sunny spot in a week full of yet more doom and gloom. But on the positive side, I am pretty sure I had a better week than either the PM or her Chancellor.

Bull: That's not hard though, is it? The last I heard was that the bookies had slashed their odds of Liz leaving Number 10 by the year-end to 7/2 (from 40/1 back in September). The feeling is that she seriously risks having the shortest tenure in British political history (119 days).

Bear: There's no doubt her premiership is in a precarious position. But I don't envy her job. She faces a huge pile of issues - energy shortages, raging inflation, increasing COVID infection rates, climate change, and, of course, a self-inflicted financial crisis.

Bull: Yes, but our task today is to discuss the UK Housing Market.

Bear: Are you sure? Do we really want our loyal readership to digest back-to-back gloomy *Weekly* publications?

Bull: That's where you are wrong Bear. It's not all doom and gloom. Far from it.

Bear: You're trying to wind me up, aren't you? The UK housing market is in turmoil, with price reductions, deals falling through left, right and centre, not to mention what has happened to mortgage rates over the last few weeks.

Bull: I accept all that. But the structural need for new homes, and the capital to fund it, remains firmly intact. Demand for houses continues to outstrip supply, whilst the industry is, once again, expected to fall well short of the Government's annual target of 300,000 new homes. And I haven't even mentioned the residential rental market yet.

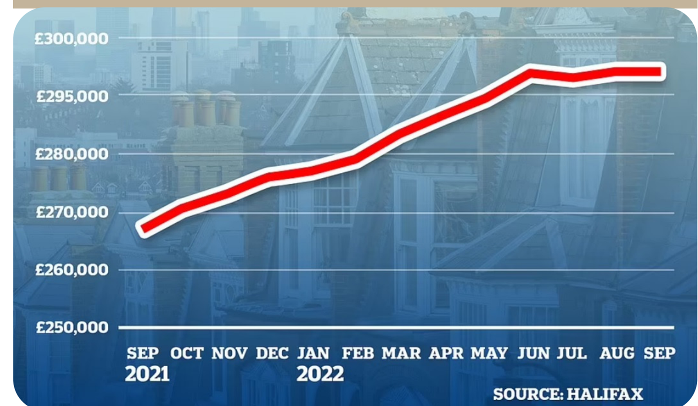
Bear: Words fail me. Have you had your head in the sand this week? Warnings of downward pressure on house prices have been all over the media. And what's more, there is now evidence that house prices cooled in September… before Kwasi's mini-budget triggered the current chaos!

Bull: But in typical fashion, what you've failed to mention, Bear, is that whilst average UK house prices fell 0.1% between August and September, the annual rate of growth to the end of September was still 9.9%. That's still impressive growth if you ask me?

Bear: But what you've failed to mention, Bull, is that the pace of annual growth slowed for the third month in a row. House prices have been largely flat since June. A typical UK house now costs £293,835. The figure in August was £294,260. UK house prices have peaked and prices are now coming down.

Bull: But it's important to look at this in a wider context. Since the start of the COVID pandemic, average property values have risen by around 23%. That's nearly £55,000 per house. Places like Wales have seen nearly 15% growth over this period.

Average UK House Prices



Bear: Yes, yes. But house prices have only gone up by around £250 over the past quarter. That compares with a rise of more than £10,000 during the previous quarter. Surely you don't need me to tell you want that means?

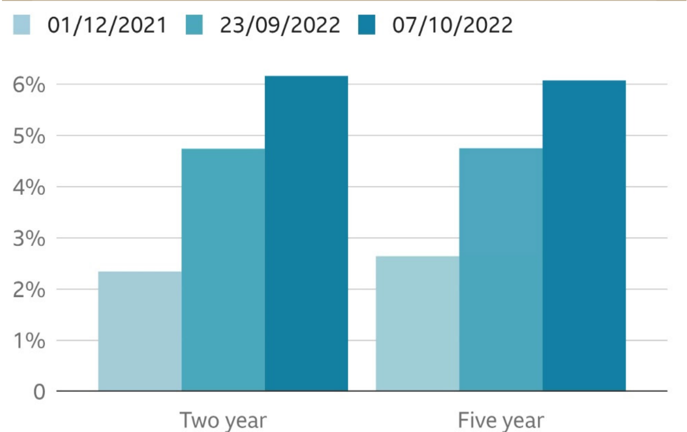
Bull: We'll see, won't we? The housing market has consistently defied expectations over the years.

Bear: Not this time. The prospect of interest rates continuing to rise amid the ongoing cost-of-living crisis will bite deeply into borrowers' affordability. And this will exert some serious downward pressure on house prices.

Bull: But hasn't the mortgage market settled down a little?

Bear: That depends on your definition of 'settled'. According to data from Moneyfacts, the average two-year fixed rate is currently 6.16%, the first time it has topped 6% in fourteen years. And average five-year fixed year rates stand at 6.07%.

Average interest charged on two and five-year fixed mortage deals



Source: Moneyfacts.co.uk

Is the House Party Over?

Bull: Crickey!

Bear: Crickey indeed. Based on these rates, someone with a £200,000 mortgage, paying it back over twenty-five years, could end up paying around £5,000 more per year for a two-year fixed-rate deal than they would have done last December.

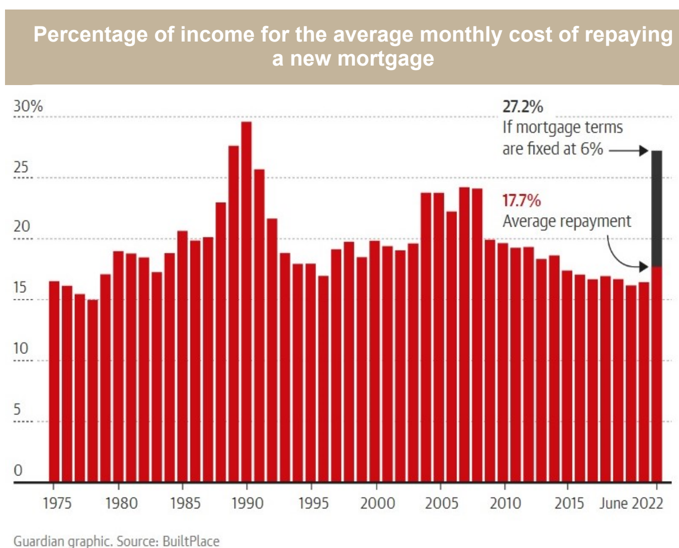
Bull: Double Crickey!

Bear: What's wrong Bull? Has the cat caught your tongue?

Bull: No, no. I am just digesting all this. I thought I'd read that the choice of mortgage products was gradually increasing again.

Bear: That's true. But the total number available is still well down on the 3,961 available on the day of the mini-budget. According to Moneyfacts, they reckon that there are now only 2,533 mortgage products available. For homeowners who are currently locked into some of the lowest mortgage rates but with their deal ending soon, the future looks really bleak. Limited choice, coupled with an extreme rate shock. That's not a great combination, is it?

Bull: Nope. These steeper rates will definitely eat into household incomes at a time when inflation is close to a forty-year high. For the estimated 300,000 borrowers who come off a fixed-rate deal every three months, and for those on variable rates, huge chunks of their income are going to be swallowed up by mortgage costs. Hard times definitely lie ahead.



Bear: And, if the Bank of England raises interest rates to 5.50%, as has been predicted, mortgage costs will rocket even further. It's no wonder that panic is starting to grip the market. Viewing numbers are well down and property sales have collapsed.

Bull: This is all very disheartening, isn't it?

Bear: Yes it is. Apparently, house sales are falling at their fastest rate since the first COVID lockdown when home moves were effectively banned! According to data from TwentyCi, an independent consultancy, the probability of sales falling through is now 7% higher than it was before 23 September.

Bull: Although I don't like the sound of any of this, I have a sneaky suspicion that the UK housing market won't completely collapse.

Bear: What makes you say that?

Bull: The shortage in housing supply and the strong labour market. And also the recently announced changes to stamp duty.

Bear: Go on. Tell me more about these changes.

Bull: Basically, the Government's intervention has taken 43% of all homes out of the stamp duty threshold. This is bound to be a shot in the arm to buyers, especially those in the regional markets. And, whilst I am at it, I understand that Kwasi is seriously considering extending the mortgage guarantee scheme beyond December. That would help too, especially as first-time buyers account for one in three purchasers.

Bear: But I just fear that whatever the Chancellor comes up with, it just won't be enough. Some independent analysts and agents, including the likes of Knight Frank, are predicting that average house prices will fall by at least 10% over the next two years.

Bull: I read that too. But remember, since the start of the pandemic, house prices have risen by circa 23%. London posted the weakest regional performance and that was still at plus 17%! Thanks to the run-up in prices during the pandemic, even a 10% fall would only push prices back to levels that were recorded in May 2021.

Bear: True. But the consequences could, nonetheless, be dire, particularly for recent home buyers. Because inflation is running at such high levels, a 10% fall in nominal prices would actually represent a real term drop of closer to 25%. That would be a larger fall than the correction that followed the Global Financial Crisis.

Bull: But all this will surely boost the UK residential rental market? A lack of available stock and strong tenant demand has recently resulted in the strongest growth in UK rents on record. This supply / demand imbalance is bound to underpin further rental growth. According to Hometrack, rental demand is up 142% against the five-year average, while supply of available properties is down 46%. That's good news for investors.

Bear: But not for tenants.

Bull: Fair point. Okay … although we don't appear to be agreeing on the likely extent of the fall in house prices, or how fast they will fall, I think we can both accept that the residential sector is in for a bumpy old ride.

Bear: Finally, we can agree on something! Let's just hope the UK's new housing minister, Lee Rowley, can make a mark.

Bull: Given that he is the thirteenth housing minister since 2010, and the fourth in 2022 alone, I have my reservations!

Bear: So do we all! Enjoy the rest of your day.

Bull: You too!

Bull and Bear

The Future of Office Design

As property investors focus their attention on 'best-in-class' offices, Bull & Bear take a moment to discuss what the future office will really look like.

Bear: Ah, that's better. At least the St Bride's Tavern has turned its heating on. Mrs Bear is on an energy saving mission at home to keep our bills down, but it doesn't half make the house feel dark and depressing.

Bull: You're not the only one, Bear. Mrs Bull has just bought John Lewis out of rugs and has even gone as far as mothballing the oven! I now have to cook everything in a new-fangled air fryer, which definitely isn't as easy to use as it should be.

Bear: Because you haven't read the instructions yet…?

Bull: Possibly, Bear. But the point is that I am now actively heading into the office five days a week just so that I can get a decent, hot shower and work in comfort.

Bear: Five days a week, Bull? That's unheard of these days!

Bull: Well, 5 St Bride Street does have a great power-shower! But showers aside, I did want to pick your brains on the future of office design. The concept of what 'the office' should look like is evolving fast and this has real implications for occupiers, landlords and would-be investors.

Bear: I wouldn't over-think it, Bull. Office workers need a sturdy desk, a PC, and a good internet connection. Oh, and a decent coffee machine!! We need to focus more on productivity, and less on wellness initiatives and yoga classes.

Bull: But that's exactly the point, Bear. I am thinking about productivity. And a sea of desks and conference rooms simply is no longer the answer.

Bear: Go on.

Bull: First, let's take a step back in time and look how offices actually evolved. They started in the late 1800s and were usually associated with some sort of manufacturing, with rows of desks built on Taylorist principles.

Bear: Like a sort of 'factory for paperwork'.

Bull: Exactly, Bear. Not hugely enticing. Then fast-forward to the post war era, and the arrival of desktop computers and desktop phones which effectively tethered workers to their desks or specific locations in the office.

Bear: Putting it like that, it doesn't sound very glamorous. But at least it was easy to manage. The people sitting at their assigned desks were obviously being productive and the conspicuously absent ones on long lunch breaks in the pub weren't! None of this working from home malarky blurring the lines!

Bull: You are just falling into the old trap of presenteeism, Bull. If there is anything we have taken out of the COVID-19 pandemic it is that some people can be really productive working away from the office.

Bear: Okay. I take your point that an employee's productivity isn't linked to the hours spent sitting at a desk or a computer. But how can office design help with productivity? Playing endless games of table tennis in the break-out room isn't going to help with the pitch presentation that needs preparing!

Bull: Well, to start with, we need to think about employees as consumers and office space as a product. And we need to think of the design in terms of the employees' overall experience, not just as functional and decorative elements.

Bear: I understand the concept, Bull, but can you give me some real-life examples? What about the current craze for biophilia? They've been ordering so many plants at 5 St Bride Street recently that they are in danger of turning it into a greenhouse!

Bull: That is certainly one example, Bear. And it is not just a short-term fad. It's a trend that (excusing the pun) will continue to grow. Humans are intrinsically linked to nature so bringing plants into the working environment counteracts stress and makes us feel healthier, more comfortable, and most importantly…

Bear: … more productive?

Bull: Exactly, Bear. Which is why office design will focus on things like better air quality, increasing levels of natural light and, yes, lots of biophilia. And remember, you don't just have to bring nature inside the office, you can also bring the office outdoors. In the future, I'd expect more offices to provide outdoor workspaces on terraces and in garden areas.

Bear: They won't get much use in London at this time of year, Bull! But I take your point.

Bull: The 'point' I am trying to make, Bear, is that the future office will exist to serve the employees, rather than just being a place you must go to in order to work.

Bark's Ohio office has bunkbed style seating nooks, an indoor play area, and work stations with built in areas for dogs.

Bull and Bear

The Future of Office Design

Bear: I get it. It's all about creating a sense of employee wellbeing and engagement. Someone told me, for example, that Google's Zurich office has a mini basketball court inside it and ski-gondolas which you can use as quiet workspaces. I'd be all over some lunchtime basketball!

Bull: Well, it certainly beats an M&S sandwich at your desk. And, yes, there are plenty of other examples of 'creative' office design. The gaming company, Mind Candy, for instance uses a wooden treehouse and a gingerbread house for meeting rooms.

Bear: And it has a helter-skelter slide that takes you from one floor to another too! Wow, the future offices that you're now describing sound great.

Bull: They will be, Bear. But there is more to effective office design than giving employees the chance to slide down a couple of floors.

Bear: It sounds to me like all you need is a café-inspired refreshment hub, an informal area to socialise, plenty of greenery, and (in case we forget there is work to do occasionally!) some privacy booths where employees can also focus and concentrate. Simples.

Bull: You are certainly on the right lines, Bear. All these different spaces help employees to socialise, catch up with colleagues, share higher quality time with their team, and get away from everyone when they need to concentrate. The future office environment needs to support this balance.

Bear: That makes sense. And, if employees look forward to coming into the office, it's a win-win for everyone.

Bull: Exactly. But the best offices won't just provide these different spaces, they'll include neurodiverse spaces and incorporate genuinely inclusive design.

Bear: You've lost me now, Bull. Neurodiverse spaces?

Bull: Yes. Neurodiversity refers to the differences in our brain functions and approaches when interpreting information. Office design should really provide employees with a sliding scale of spaces, so they can choose which space suits them best. You can use simple tricks like sound and light control, and a considered use of colours or fabrics to create calming spaces.

Bear: Wow, there is more to this design process than I'd realised. What did you mean by 'inclusive design'? You can't get much more inclusive than a game of basketball!

Bull: It means creating an office that works for everyone and caters for diverse needs. Larger offices, for example, may include rooms that specifically cater for new mothers, prayer rooms for those of different faiths, or meditation rooms.

Bear: Gosh. This re-imagining of the office is rather different from my simplistic version, with its 'sturdy desk, PC, and good internet connection'.

Bull: Indeed, Bear. And with all these latest trends in office design, we haven't really touched on the role of technology.

Bear: There are even more things to think about?!

Bull: Absolutely. The offices of the future will have a far more integrated relationship with technology. The Gymshark HQ, for instance, has installed a human-centric smart lighting system which tracks how the space is used, so the company can continually assess and optimise their office design. You see, it's not a static process. Design needs to evolve.

Bear: Well, this conversation has definitely opened my eyes, Bull. But who is going to drive through these changes? These inclusive, smart offices won't come cheap.

Bull: And that's the beauty of this, Bear. Company CEOs are the ones who are really driving this evolution. They recognise that great offices will not only enhance employee wellbeing and productivity, but they are also a strategic device to improve their corporate brand and image.

Bear: Now that is a win-win! Talking of personal needs, I wonder if the St Bride's management team would be willing to build me a hibernation pod for the winter?

Bull: Hmm? That might be a hard sell on the productivity score! But do make sure I'm in the office when you ask them!

Residential Tipping Point?

Bull: Jeepers! Have you seen what has happened to the share prices of the listed house builders? They have taken an absolute pasting.

Bear: I thought they had been recording really good profits.

Bull: They have but their share prices are still down by 40-50% since the start of the year... way, way worse than the rest of the stock market.

Bear: If you think about it, it's probably not that surprising. Just consider the additional costs they are having to bear for cladding reparation (following Grenfell), the price of steel which has doubled, and the cost of wood and plastic doors/windows which are now nearly 50% more than they were 18 months ago.

Bull: Even so! Whilst there has been a right ol' kerfuffle about rising mortgage rates lately, surely the state of the residential sector isn't that parlous?

Bear: That's a posh word for you, Bull.

FTSE House Builders: Share Prices

	01.01.22	21.10.22	Price Change (%)
Barratt Homes	748.00	347.50	- 53.54
Persimmon	2,468.89	1,216.50	- 50.73
Vistry Group	1,088.69	550.00	- 49.48
Bellway	3,253.79	1,760.50	- 45.89
Crest Nicholson	350.03	190.10	- 45.69
Taylor Wimpey	161.13	88.48	- 45.09
Redrow Group	683.97	401.80	- 41.25
Berkeley Group	4,775.00	3,305.00	- 30.79
FTSE 100 Index	**7,384.54**	**6,969.73**	**- 5.61**
FTSE 250 Index	**23,480.81**	**17,206.55**	**- 26.72**

Source: Financial Times

Bull: No… but seriously, Bear. It seems as if punters have overlooked the basic long-term premise that our population is growing. As we have discussed before, the ONS predicts that the UK's population will increase from 67.5 million to 77 million over the next 25-30 years. That's nearly 10 million more people who will need a home. This particular can cannot be kicked down the road. We need lots of houses… and we needed to start yesterday.

Bear: Fair point, Bull. Not least as the (last) Government seemed minded to drop its target of 300,000 new homes annually. Sceptics might be forgiven for interpreting this as yet another U-turn.

Bull: All this prevarication and indecision is doing my head in. The latest ONS numbers, reported on Wednesday, still show rising house prices. The average UK price (August) is £295,903. That's up a whopping 13.6% on a year ago.

Average House Prices, UK: August 2022

	Average House Price (£)	Growth over past 12 months (%)
London	552,755	8.3
South East	406,981	14.8
East	364,885	14.3
South West	335,927	17.0
UK Average	**295,903**	**13.6**
West Midlands	255,202	13.9
East Midlands	255,114	16.9
Wales	220,059	14.6
North West	219,025	15.3
Yorkshire & Humber	212,313	13.9
Scotland	195,391	9.7
Northern Ireland	169,063	9.6
North East	164,395	14.3

Source: ONS - 19 October 2022

Bear: On the other hand, Bull, according to Nationwide's Q3 numbers, affordability (mortgage/pay) ratios are already at record levels. With the ongoing increases in household expenses and higher mortgage interest rates, the ratio is likely to get worse.

And, if we are heading into a recession, I cannot see salaries rising enough to make up the difference. Something will have to give. And in my judgement, that means a fall in house prices.

Bull: Yes, but, even if the value of my house…

Bear: Do you mean bull-pen?

Bull: Whatever! If it fell by the same amount as it did after the GFC (18%), which I am confident it won't, it would still be worth more than it was two years ago. Without wanting to sound trite, I have built up a significant amount of equity in my home and I still have another couple of years before my fixed-rate mortgage has to be re-financed. Frankly, I am not too concerned.

ST BRIDE'S MANAGERS

Bull and Bear

Residential Tipping Point?

Bear: Not everyone is as well off as you though, Bull. The Government has recently published a paper on poverty in the UK. This reveals both good and bad news. On the positive side, over the past twenty-five years, absolute poverty has fallen significantly. But on the negative side, 13% (8.8 million) of the population are still in absolute poverty. This rises to 17% (11.1 million) when housing costs are included. I think you will agree that this is completely unacceptable.

Bull: I had no idea!

Bear: Yes, and as these figures are for 2020/21, the numbers are likely to be even worse now.

UK Poverty 2020/2021

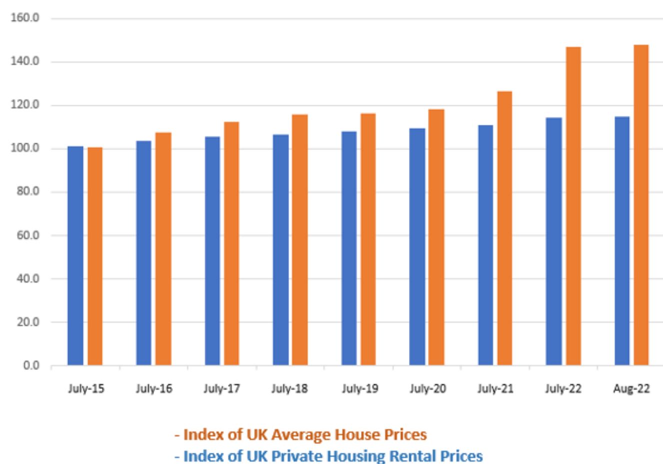
	Relative Poverty		Absolute Poverty	
Before housing costs	10.5m	16%	8.8m	13%
After housing costs	13.4m	20%	11.1m	17%

Source: House of Commons Library - 29 September 2022

Bull: Thank heavens for the rental market, then. According to the ONS, private rents only rose by 3.6% in the twelve months to September. And, in the seven years since July 2015, they have risen by just 15.2%. This is well short of house price growth, which has been a thumping 47.8%.

Bear: However, with an inevitable strengthening in letting demand as potential buyers switch their priorities, and a shortage of stock, residential rents are bound to keep on rising. In fact, according to the latest RICS survey (August), rental growth is expected to be about 5% per annum over the next five years.

House Prices vs Rent Index



Source: ONS - 19 October 2022

Bull: That's good news for the BTR sector then, isn't it?

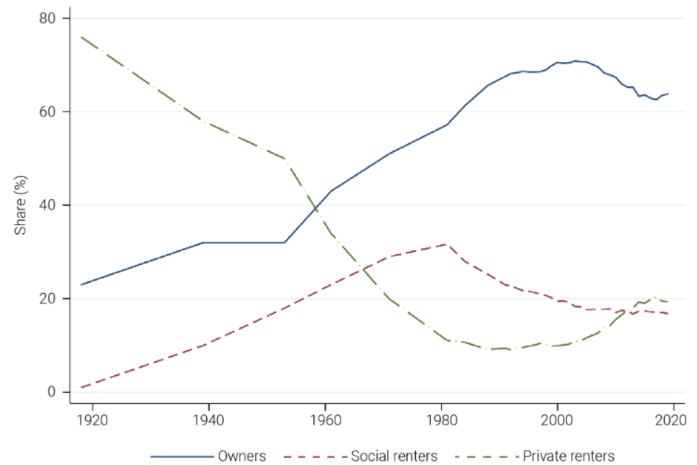
Bear: Yes, provided, of course, that future Governments (of whichever persuasion) don't throw any nasties into the mix… like rent capping!

Bull: Whilst I have always been a strong advocate for private home ownership, it does rather dominate our financial thinking, doesn't it? Just think… only 100 years ago, 80% of the population lived in rented accommodation. It has only been since the 1960's that private ownership has exceeded private renting.

Bear: And that turn-around was, to a significant degree, because of the imposition of rent controls and absurdly tenant-favourable security. The insurance companies, who held large residential holdings after the Second World War, decided that they could no longer hack the Government's politically-driven interference and bailed out of the sector. It took the private sector the best part of forty years to trust the Government again.

Bull: That's just as well, as there are now 4.4 million households in the PRS sector which accommodates over 11 million people. The politicians really don't want to mess with that lightly, do they?

Rent vs Ownership over the last 100 years



Source: Brookings

Bear: No, they don't. But with the UK's economic, financial and political scene so much up in the air at present, who would bank on anything?

Bull: I would! And so would St Bride's Managers. Apparently, they still have funds available in their Yorkshire Residential Partnership to invest into revolving housebuilder loans and BTR programmes.

Bear: Bravo for them! Thank heavens someone still wants to do some business, rather than be glued to their screens watching the latest episode of 'You Couldn't Make it Up'.

ST BRIDE'S MANAGERS

Bull and Bear

BPS: An Icon Reborn?

Bull: Good morning, Bear. I'm glad you remembered to change your clocks back. I had you down as an absolute banker for turning up an hour early!

Bear: And turn down an extra hour in bed? As if!

Bull: Fair point. Anyway, how's your half-term week been? Have you done anything exciting?

Bear: I think they call it a 'staycation'. But I did treat the Bear family to a day out in London and, as part of that, we went and explored Battersea Power Station and the wider Nine Elms area.

Bull: Typical! Just so you could expense your travel fares back to St Bride's, citing a work-related trip!

Bear: Harsh.

Bull: But fair!

Bear: I won't deny that the Power Station intrigues me professionally, not least because it is a building I've worked on in the past. Plus, I travel past it every day on my commute to and from work. But the Power Station officially opened two weeks ago, and we all wanted to see what they had delivered.

Bull: And?

Bear: It's mighty impressive. Yes, a lot of the shops and restaurants haven't opened yet, and there are swathes of homes still to be built but, given the transformation from what it was to what it is now, I think the developer should be applauded.

Bull: I am really pleased to hear that. From what I had heard and read in the press, the feedback about the scheme and the wider area has been mixed ... at best.

Bear: Maybe, but I think we need to take a step back and remember what was there previously. It's not difficult to argue that from a dirty and unloved industrial wasteland, it is now London's fastest growing and most vibrant residential and business district. The biggest urban renewal success story this century.

Bull: Arguably.

Bear: Before its rebirth, Nine Elms was a study in urban decline. By the end of this decade, it is estimated that more than 33,000 people will have homes there and 25,000 permanent jobs will have been created. The area is still being promoted as London's new diplomatic quarter.

Bull: I've no idea why. Yes, the US embassy is based there but that's it. The Chinese and Dutch embassies were headed there too but both have backed out. Perhaps they shared Donald Trump's assessment of Nine Elms, when he refused to cut the ribbon on the new embassy: a 'lousy location'.

Bear: Surely after all these years, you aren't going to take any notice of his words? And if you want to cite another former leader's opinion, when Boris Johnson, as Mayor of London, launched the plans for the opportunity area back in 2012, he described it as 'the greatest transformational story in the world's greatest city', the final piece in the jigsaw of Central London.

Bull: Surely after all these years, you aren't going to take any notice of his words?

Bear: Touché.

Bull: I can't argue that the transformation of the area hasn't been spectacular. It's now a very visible presence on the London Skyline. But equally, it can easily be argued to be 'an international investor's playground', where regular Londoners have been pushed to the very edge or cut out of the picture altogether. Take the Power Station scheme itself. What's the affordable housing provision there?

Bear: It was 50% when planning was granted.

Bull: But what is it now?

Bear: 9%. But remember, as part of the wide-scale redevelopment, the Northern Line extension has been delivered, costing £1.1bn… and the Power Station contributed £300 million towards it. And without the tube extension, none of this would have happened. It's been the key piece to attracting the occupiers.

Bull: I like what you did there. You gave the answer and then immediately hit me with stats on a completely different topic. 9% is laughable. And from what I've read, the affordable housing component is still being built, butted up against the railway tracks, some 10 minutes' walk away from the main building itself. That doesn't sound like social integration to me. It really does raise the question of what sort of community is being created there.

Photograph: Jason Hawkes

BPS: An Icon Reborn?

Bear: As I said, the £300m contribution to the tube was money that would otherwise have been spent on affordable housing. It simply comes down to viability. Of course everyone would want to deliver more affordable homes. The owners, a consortium of Malaysian investors, have certainly put their money where their mouth is though. You can't tell me that you would prefer the site to have remained derelict. We had nearly 40 years of that.

Bull: Of course not. I also accept the viability point. I just think it's a real shame the social mix doesn't appear to be what it should be.

Bear: Well, given that Wandsworth turned Labour in the recent local elections, for the first time in forty-four years, the developer may yet have a battle on their hands with future plots when it comes to affordable housing provision.

Bull: Given the local councillors refused to attend the grand opening, that sounds like a given! Anyway, tell me a little bit about the Power Station Scheme itself. I know in the past there were plans to transform it into a theme park, or Chelsea's football stadium, or a giant ecodome.

Bear: After nearly four decades, a dozen failed proposals, several bankrupt developers and a fair few billion pounds… the building has been transformed! The overall project is divided into eight phases, with the first houses going on sale back in 2013.

Bull: But it's not just housing, is it?

Bear: Absolutely not. The Grade II listed power station forms the centrepiece of the scheme that will eventually house 4,000 homes and over 3m sq. ft. of commercial space, including 250 shops and restaurants, a theatre, a hotel, a medical centre, plus nineteen acres of public open space. The central power station building includes 565,000 sq. ft. of offices.

Bull: Crickey. Which office tenants have signed up?

Bear: Apple signed a pre-let of 500,000 sq. ft. back in 2016. And last week they unveiled their visuals. The office is being designed over six floors and is being developed to maximise opportunities for collaboration as well as employee wellness. The floors will be linked by bridges and incorporate brick-lined balconies. Apparently, the bricks will be hand-fired at the same quarry in Gloucestershire where the power station's original bricks were made more than seventy years ago.

Bull: That's a nice touch. So, when will the offices open?

Bear: Early next year. SharkNinja have also signed up for 25,000 sq. ft. for labs and testing facilities, while flexible workspace provider, IWG, has leased the remaining 40,000 sq. ft of offices.

Bull: Is it a similar story with the retail occupiers too?

Bear: Numerous of the retail big-boys have snapped up space, including Abercrombie & Fitch, Adidas, Boss, Breitling, Calvin Klein, Sweaty Betty, Lacoste and Zara. Cafes, restaurants, coffee shops, food halls, chocolatiers and bookshops have all taken up residence too.

Photograph: M@/Will Noble/Londonist

Bull: I had no idea of the sheer scale. It sounds like it is a place for everyone after all!

Bear: Yes, even though a lot of the tenants are still fitting out, a quarter of a million people visited the Power Station and the Electric Boulevard, the new pedestrianised high street, on its opening weekend a fortnight ago. So, there must be something there to attract them all!

Bull: It sounds like it. But how many of those visitors actually live in Nine Elms? I'd heard that scores of expensive flats are lying empty, held by secretive shell companies in off-shore tax havens.

Bear: Let it go Bull. We've covered that subject already. We both accept the mix is probably not as ideal as everyone would have wanted. But to me, the scheme demonstrates that the redevelopment of major urban areas can be both forward looking and sympathetic to its history. Everyone associated should be applauded for their efforts over the last decade or so.

Bull: Fair enough. And on that uplifting note, let's call it a day. With it now getting darker an hour earlier, I want to make the most of the daylight.

Bear: Good call. Enjoy your Sunday.

ST BRIDE'S MANAGERS

Bull and Bear

Pub, Rates and Revaluations

As businesses struggle with rising occupancy costs, Bull & Bear discuss the implications of the 2023 Draft Rating List and what we can expect from the Chancellor's Autumn Statement.

Bear: Are you feeling okay, Bull? You are as white as a sheet.

Bull: Not really, Bear. I was just enjoying a quiet pint in the St Bride's Tavern, with a copy of Altus Group's Annual Business Rates Review 2022 for company, only to discover that the UK is in crisis!

Bear: I'll ignore your strange choice of pub literature, Bull, but surely that hasn't come as a surprise to you? Unless you've been hiding in a field since Kwasi's ill-fated "mini-budget", the precarious state of the UK's economy has become abundantly clear. I'm not sure we are in a full-blown crisis, but the Bank of England's 75 basis point rate hike on Thursday and predictions of an extended recession definitely signal hard times ahead.

Bull: No, no Bear. I was talking about something far more serious.

Bear: You were?

Bull: Yes. According to Altus, 150 pubs across England and Wales have disappeared in the last three months. That's 50 pubs a month that are simply vanishing!

Bear: Gosh, that is serious. What's happened to them?

Bull: They've either been converted into other uses or demolished. Apparently, when a pub closes there are queues of developers seeking planning permission to convert them into houses or flats. At this rate, it is only a matter of time before our own St Bride's Tavern suffers a similar fate. It doesn't bear thinking about.

Bear: No, it doesn't. The great British pub is part of the social and cultural fabric of the UK. Where else would we go for our quiet Sunday catch-ups? We'd likely end up on a park bench with a six-pack from the supermarket!

Bull: And, unfortunately, the situation is only likely to get worse, Bear. Pubs are already experiencing spiralling energy bills and other operational costs, but from April next year they'll lose the 50% relief on their business rates bills. That's worth on average £9,563 per pub. With consumers tightening their belts amidst the cost-of-living crisis, these added costs will be yet another nail in the coffin for publicans.

Bear: Surely, in the face of these unprecedented pressures, there is a case for pubs to be offered additional business rates relief. The British Beer and Pub Association claimed last year that pubs overpay their fair share of business rates by £570m. Is there nothing the Government can do to help, Bull?

Bull: Ah, now that question opens up an even bigger can of worms, my dear Bear. Mr 'Kami-Kwasi's' mini-budget dodged the whole rates issue entirely in September, so everyone now is waiting with bated breath to hear what Rishi will do.

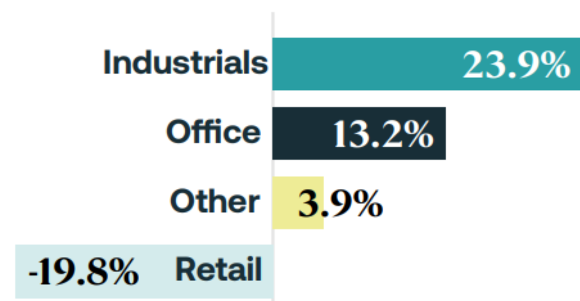
Bear: So, when will businesses get clarity, Bull?

Bull: Well, the first thing we are all waiting for is the publication of the 2023 Draft Rating List, which must be published no later than 31 December 2022. Remember, the Rating List hasn't been revised since 2017 so at least everyone's rateable values should be more reflective of underlying rental values.

Bear: Yes. It does seem crazy that rateable values are based on a six-year-old list and market rental values as at the 1st April 2015! We've had Brexit and COVID-19 since then. There are going to be some big winners and losers on the revaluation.

Bull: You are not wrong, Bear. According to MSCI data, the average increase in industrial rents in England between April 2015 and April 2021 (the antecedent valuation dates) was 23.9%. By contrast, retail rents declined by 19.8% over the same period.

Cumulative Overall Rental Value Change Q1 2015 to Q1 2021 (England)



Source: MSCI

Bear: That sounds like bad news for industrial tenants who will shoulder a much larger share of the rates burden, but good news for our struggling retail and hospitality sectors. Which includes what's left of our pubs!

Bull: True. The 2023 revaluation will finally crystallise the online commerce and retail collapse story, but for ratepayers the revaluation is only half the story.

Bear: What else do we have to consider?

Bull: The multipliers and transitional arrangements, Bear. An occupier's business rates bill is calculated by applying a multiplier to the rateable value and then deducting any eligible reliefs. And, whilst we can estimate likely rateable values, we are in the dark on the other two.

Bear: I am guessing this is where Messrs Hunt and Sunak comes in?

Pubs, Rates and Revaluations

Bull: Exactly. The Government is required by law to introduce transitional arrangements at each revaluation. It works by phasing in very large increases to rates liabilities over several years, based on annual percentage caps.

Bear: Which sounds reasonable. But what about the ratepayers (like the struggling pubs) who should in theory be due large reductions. Will these reductions be phased as well?

Bull: Historically, yes. The transitional support to ratepayers whose liabilities are increasing is paid for by restricting large reductions in bills that ratepayers would have otherwise enjoyed.

Bear: That hardly seems fair given the quantum negative shift in rental values for the wider retail sector. The liabilities won't reflect the revaluations at all! They'll still be artificially high!

Bull: Which is why it is all rather politically sensitive, Bear! And, just to throw some extra petrol on the fire here, there is the looming spectre of an inflationary increase to business rates next April of 10.1%. According to Altus, that's an overall tax hike of more than £2.7bn in England between April 2023 to 2024.

Bear: Ouch. That's just going to add to businesses' already sky-rocketing occupancy costs. Forgive me if my memory is rather hazy, but didn't the 2019 Conservative manifesto pledge to lower the burden of business rates? And, more specifically, to cut business rates for leisure, retail, and hospitality.

Bull: Yes, it did, Bear. And when Rishi Sunak was vying with Liz Truss for the Tory leadership, he indicated that he would look at extending the 50% rates discount up to £110,000 per business for next year as well. But I am afraid recent Prime Ministers have a rather bad record when it comes to keeping promises!

Bear: He wouldn't be the first Prime Minister to perform a policy U-turn or fail to enact a manifesto pledge! But enough of the political sniping. Let's stick to the topic.

Bull: Exactly. Okay, this is what I reckon businesses should expect. The Autumn Statement should provide confirmation on the rating multipliers and details of the transitional arrangements. Altus Group have estimated that the Standard Multiplier for England will rise from 51.2p to 56.6p, after adjusting for inflation. The revaluation will be concluded by the end of the year, which means ratepayers should expect to receive their revised bills in February or March 2023.

Bear: So at least we have some certainty on the short-term timeline of events, even if we don't have clarity on policy.

Bull: Correct. And going forward the Government has announced that the frequency of revaluations will happen every 3 years, which should make the system fairer.

Bear: Which must be a positive step.

Bull: Absolutely.

Bear: I suppose there is also a chance that the Government could tear up the rule book altogether and deliver the wholesale reform they've promised?

Bull: My advice on that one, Bear, is not to hold your breath. Given the wider macro-economic context and the size of Mr Sunak's in-tray, reforming such a stable source of tax revenue is unlikely to be top of his to-do-list.

Bear: Okay. But whilst we wait for Rishi and his crew to crunch the numbers and provide some clarity, let's at least do our bit to support the great British pub by buying two more pints at the St Bride's Tavern.

Bull: Good idea. I'll happily drink to that.

Source: Altus Group

The Good, The Bad & The Ugly

Bull: I told you so!

Bear: Told me what?

Bull: All the recent doom-mongering has been massively over-blown. The MSCI/IPF Q3 numbers were published on Tuesday, and they weren't that bad. Whilst the total returns for the quarter were in negative territory (- 4.2%), the 12-month numbers were still a handsome + 9.8%.

Bear: Yes, but....

Bull: But nothing. The figures speak for themselves. And more than that, to the end of September, property was the best performing major asset class over one, three, five and ten years. And by some measure.

Bear: Yes, but....

Bull: C'mon Bear. Enjoy the moment! The data shows that every asset class delivered a positive total return over the twelve-month period, with industrials delivering a spectacular + 17.6%. Even the worst sector, offices, managed to post + 1.9%.

Bear: STOP! JUST STOP!! You are incorrigible. Anyone with half a wit knows that the world has changed since the MSCI/IPF September numbers were prepared. Since, then we have a new Government, a gigantic fiscal hole, double-digit inflation, a hike in the base rate to 3.00% and an economy slip-sliding into recession.

Bull: You are such a spoilsport! Why can't you ever see the brighter side of life?

Bear: I am sorry Bull, but if you had been in the office on Wednesday (the day after MSCI/IPF's presentation) rather than playing golf, you could have dialled into CBRE's October Monthly Index call and the presentation of their numbers. There was red ink just about everywhere. With yields up virtually across the board, capital values for All Property fell by - 6.8% over the month (October). Apparently, that is the sharpest fall in values in a single month since they started the index in 2000.

Bull: It is so disheartening. And all the more so as, apart from the retail sector, the supply and occupational demand for space still appears to be broadly in equilibrium.

Bear: That may be true, Bull, but you are missing the main point. It's all about the spread between the yield on property and gilts, and the impact of the higher cost of debt on net returns. And whilst I don't want to be accused of being a 'clever dick', I have been warning you of the inevitability of a re-pricing shock for several years now.

Basically, bond yields had fallen to an unsustainably low level, pumped by the Bank of England's asset purchasing programme. It was only a matter of when, not if, the balloon was going to burst.

Bull: I know, but gilt yields have already settled back at circa 3.34%. Surely the market's panic is over?

Bear: I am afraid not. Everyone is still as jittery as heck. Whilst the spread between property yields and gilts has been repaired to some extent, we now need to brace ourselves for the Autumn Statement on Thursday which will include some very unpalatable tax rises and a raft of deep spending cuts.

Then, with inflation still roaring away, there will almost certainly be another hike in the Base Rate again on 15 December. I am sorry to say, Bull, but it's going to be a very uncomfortable run-in to Christmas and the New Year.

Bull: Bear, I really don't like the sound of this whatsoever. Maybe I should cash in my chips now. I have a terrific secondary office in my portfolio that I am sure someone would like to buy.

Bear: You are kidding me, right? Good secondary office yields now stand at 8.50%, against 7.00% this time last year. And 'second-grade' secondary offices are now priced at 12%.

Bull: That could be a problem, then. There are already a couple of empty floors in the building, and the other leases expire next year, as does my bank loan. Moreover, my building surveyor tells me that the M&E is shot, and I have some challenging energy efficiency issues to resolve, together with some rather dodgy cladding.

MSCI / IPF Quarterly Results (Q3 2022) and CBRE (October 2022) Monthly Index Results	Good News		Bad News		Ugly News	
	MSCI / IPF Quarterly Results - Q3 2022				CBRE Monthly Results - Oct 2022	
	Total Return 12 months	Capital Growth 12 months	Total Return 3 months	Capital Growth 3 months	Total Return 1 month	Capital Growth 1 month
All Property	9.8%	5.5%	- 4.2%	- 5.1%	- 6.4%	- 6.8%
Industrial	17.6%	13.9%	- 7.4%	- 8.2%	- 10.3%	- 10.6%
Retail	9.7%	4.2%	- 2.6%	- 3.8%	- 4.3%	- 4.8%
Offices	1.9%	- 1.8%	- 2.8%	- 3.7%	- 4.8%	- 5.1%
Residential	6.1%	2.1%	- 1.5%	- 2.2%	N/A	N/A

Source: MSCI / IPF & CBRE

The Good, The Bad & The Ugly

Bear: Please tell me you are joking, Bull. Otherwise, this time you really are in the very deepest of poo-poo.

Bull: Of course. I am just winding you up!

Bear: Phew! There is only one sector that is even less attractive than secondary offices, and that is secondary shopping centres where the market yield is 16%.

UK Property Investment Yields		Dec 2021 %	Nov 2022 %
Offices	West End	3.25	3.50
	City of London	3.75	4.50
	M25/South East	5.50	6.00
	Regional	4.75	5.75
Industrial	Prime Distribution	3.50	4.75
	Prime Estate (excl. London)	3.50	4.75
Retail	High Street Shops - Prime	6.50	6.75
	Supermarkets - Prime	3.50	5.00
	Shopping Centres - Prime	7.75	8.25
	Shopping Centres - Secondary	16.00	16.00
	Retail Warehouses & Parks	5.50	5.75

Source: CBRE

Bull: That's eye-watering, isn't it? But if values do slip a little bit more, I will definitely be back in the market with my cheque book at the ready. Just think about it:

- I am a cash buyer, credible, and I can move quickly. Moreover, I have a reputation for not chipping at the last moment.
- As the rate of inflation is not expected to be back to the Bank of England's 2% target level for at least eighteen months, the cost and availability of debt is going to continue to be uncertain. So, this should give me a twelve-month head-start over the competition.
- The only real competition I need to watch out for are dollar-denominated investors. The fall in the pound makes the UK a sitting duck.
- The LDI debacle has triggered some db pension funds to seek redemptions from the open-ended property funds. Whenever that happens, there are always bargains to be had.

Bear: Just remind me again … what is LDI?

Bull: Liability-driven investments. They are derivative products designed mainly for defined benefit pension funds to help generate the necessary cash to meet their guaranteed monthly payments.

The trouble is that the funds are obliged to post cash as a collateral against the derivatives. However, with gilt prices crashing last month, there was a call on their collateral. But the only way they could meet this was by selling gilts fast. Not surprisingly this sent gilt prices into a downward spiral … and the Bank of England had to step in to save the day.

Bear: So why are the funds selling their PUT holdings now?

Bull: Because they want to replenish their weightings in gilts. And it seems that property is being sacrificed to pay for it.

Bear: I have to hand it to you, Bull. You certainly have a silver tongue! The way you convey your case is compelling.

Bull: It should be. Because I mean it. Please don't get me wrong. I recognise that we have had a very nasty turn here in the UK and we are heading into recession. Moreover, the probability is that there will be a global recession next year too.

Bear: I agree with that.

Bull: But, whilst that is a deeply depressing thought, it will inevitably throw up opportunities. Recessions always do.

Bear: Yes, but … even if you could persuade me to invest counter-cyclically, what type of asset would you be focussing on?

Bull: That's easy. The secret is to be sure to invest in what occupiers will want tomorrow, rather than what they wanted yesterday. And I would not waiver an inch away from our long-standing convictions:

- London … which is still firmly St Bride's Number One World City.
- The Oxford - Cambridge – London Triangle which stands out as being one of the most successful 'knowledge' clusters in the world.
- The UK's Key Cities ... principally Manchester, Leeds and Bristol. Remember, we have a growing population here in the UK and this is where the growth is going to be.

Bear: And Edinburgh?

Bull: Both you and I love Edinburgh and, historically, we have done well there. But so long as there is doubt about Scotland's long-term position within the United Kingdom, I always need to take a deep breath before investing there. It's such a shame, really.

Bear: Hear, hear to that! Now, how about a wee dram or two, to drown our sorrows and give us the strength to face Rishi and Jezza's music on Thursday.

Bull: Go on then. It would be rude not to.

ST BRIDE'S MANAGERS

Bull and Bear

Eight Billion and Counting

Bear: What on earth is that shirt you are wearing?

Bull: It's my new Ecuador Men's away football shirt. With the World Cup kicking off later, I thought I'd get into the spirit of things. Plus, I thought wearing a Qatar shirt would be rather contentious.

Bear: Just a bit! Anyway, that shirt you are wearing reminds me of Scotland's home shirt.

Bull: I can see that. It'll be the closest that Scotland come to featuring at this World Cup, won't it?

Bear: Harsh. Anyway, as much I would love to spend the next hour or so running through our World Cup predictions, St Bride's haven't engaged us to talk about sport.

Bull: They used to! Anyway, what are we discussing this week? Surely not Jezza and Rishi's Financial Statement? Everyone has had their say on it since Thursday.

Bear: They sure have. But no, today's topic is population growth, in light of the world's eight billionth resident being born earlier this week.

Bull: I spotted that. That's a staggering number of people, isn't it? No wonder they are calling it a momentous milestone for humanity. The global population is now three times bigger than it was back in 1950.

Bear: And what's more, based on current trends, the UN is estimating that the global population could grow to about 8.5 billion by 2030, 9.7 billion by 2050 and 10.4 billion by 2100!

Bull: Wowzers! But I thought I'd read that the pace of growth was slowing down and is currently at its slowest rate in more than seventy years.

Bear: You did read that right. In 2020, the global population growth rate fell below 1%, largely due to a reduced birth rate. The UN reckons that the populations of sixty-one countries are expected to drop by at least 1% between now and 2050. The largest relative reductions in population size, with losses of at least 20%, are expected in Latvia, Bulgaria, Serbia, Lithuania and Ukraine.

Bull: Did the UN also mention those countries where the highest population growth is expected to take place?

Bear: Yup. There are eight countries – the Democratic Republic of the Congo (DRC), Egypt, Ethiopia, India, Nigeria, Pakistan, the Philippines and Tanzania – who, apparently, will account for more than half the population growth until 2050. The DRC and Tanzania are expected to see their populations double over the next thirty years! And whilst I'm at it, the population of India is forecast to increase from about 1.4 billion to 1.67 billion!

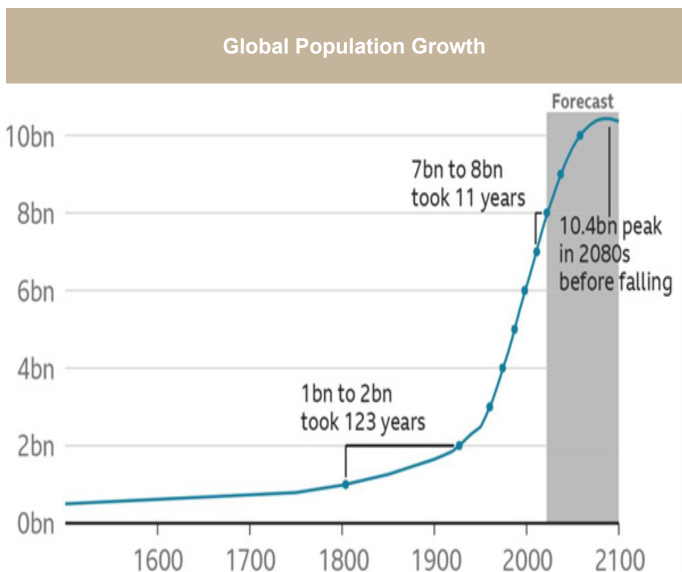
Bull: Does that mean India will overtake China to become the world's most populous country?

Bear: It sure will, and next year by all accounts. Whilst the United States will apparently remain the third most populous country come 2050, it will be joined by Nigeria with 375 million people. Lagos is projected to become the world's largest city by 2100.

Bull: This is all fascinating stuff. But I assume the data still shows the global population getting older and older.

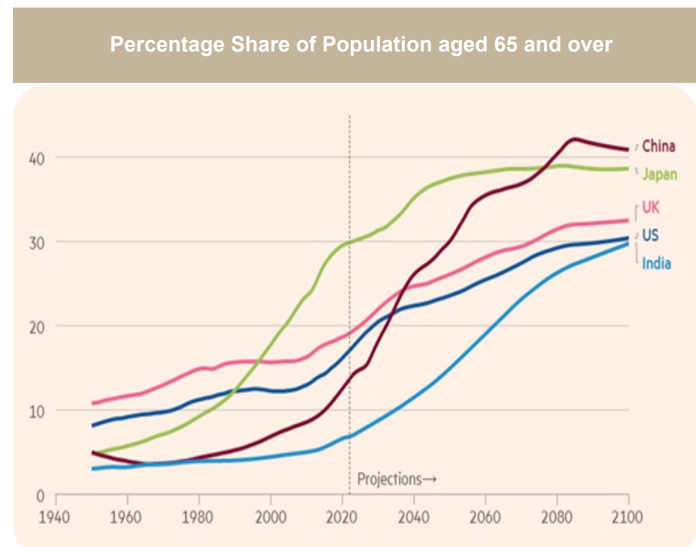
Bear: You are certainly on your game today, Bull. Absolutely spot on. Currently, 10% of the world's population is aged over 65. But this will increase to 16% by 2050. And in fact, by 2050, the number of over-65s will be twice that of those under five.

Global Population Growth



Source: UN

Percentage Share of Population aged 65 and over



Source: UN Population Prospects

Eight Billion and Counting

Bull: And thankfully for us relative oldies, average life expectancy is continuing to increase, isn't it?

Bear: Very much so. It was 72.8 years in 2019, nine years longer than it was back in 1990. The UN is now predicting an average life expectancy of 77.2 years by 2050.

Bull: This is all well and good, but the impact of this is bound to have an enormous impact on labour markets, national pension systems, not to mention care provision. And don't forget about the inevitable impact on the climate and, of course, real estate.

Bear: Indeed. Everyone knows the impact of population growth on supply and demand. But what real estate investors are interested in is what will be the impact of these population changes and, crudely, where opportunities will arise. For example, an investor looking at London will want to know how the city's population has and will evolve. Will there be continued demand for property here?

Bull: It's funny that you should mention that, as I've recently been updating my London research documents. And what I discovered was that London's population had changed much more than I thought it had over the past decade (2011 to 2021).

Bear: How so?

Bull: Well, for starters, London's resident population has grown by 7.7% to stand at 8.8 million people. But this population growth hasn't been uniform. Instead, it appears to have been much more prevalent to the east and west of the city. Places like Tower Hamlets, Newham and Hounslow.

Bear: Interesting. I bet some savvy property investors smashed it out the park by investing in those locations. On the flip side, have any areas of London seen a decrease in population numbers?

Bull: Only three apparently. Camden fell by 4.6% over the decade, Westminster by 6.9% and Kensington and Chelsea by 9.6%. These three local authorities also happen to have the highest average house prices in London!

Bear: What a coincidence! But while average house prices in the most central parts of London remain the most expensive, they haven't actually increased at the same rate as Greater London as a whole.

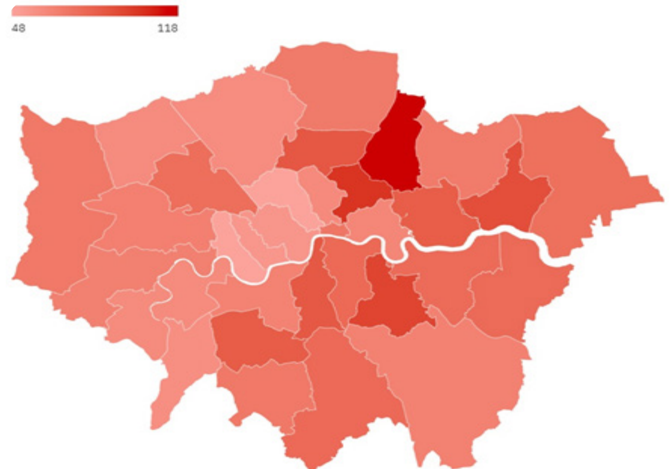
Bull: Tell me more, tell me more!

Bear: Busted. You've been watching Grease again, haven't you?

Bull: Maybe.

Bear: I knew it. Anyway, research shows that house prices in east and south-east London have seen a far greater increase than the likes of Camden, Kensington & Chelsea and Westminster. For instance, locations like Hackney, Lewisham and Barking & Dagenham recorded price increases of roughly 90 to 100%. And Waltham Forest saw a whopping 118% increase over the ten-year period, going from the fifth-cheapest place to live in London to 19th (out of 33).

Average House Price Growth in London 2011-2021 (%)



Source: ONS

Bull: That sounds like a massive, missed opportunity to me!

Bear: It sure does. But it wasn't the only opportunity and it won't be the last either. Irrespective of how people are feeling about life at present, I don't think anyone can disagree with the fact that London has evolved to meet the future needs of business, investors, workers and residents. Plentiful opportunities do, and will, continue to exist. It's just going to be a question of getting the timing right.

Bull: Hear, hear. Anyway, this feels like the appropriate time for you to mention that since the launch of St Bride's Managers World Cities Index in 2011, London has consistently been ranked Number One. In fact, I'm staggered that you haven't already mentioned it!

Bear: It was only going to be a matter of time. But now you come to mention it, from an economic and demographic standpoint, London remains extremely well-placed if you ask me. I'm also in no doubt that it will remain one of the world's most popular destinations for international investment.

Bull: I can't argue with you there. Whilst the COVID pandemic definitely forced a reset in thinking, with a sharpened focus on issues ranging from sustainability and wellbeing to talent curation and attraction, London, for me, has certainly retained its' credentials as the world's most desirable city for people, businesses and investors. And that means even more people will want to come and live here.

Bear: That calls for a toast. Same again?

Bull: Yes please.

Bear: Good stuff. Now let's get this World Cup party started! *It's coming home, It's coming home, It's coming, Football's coming home...*