
Encouraging Investment in Industrial Heritage at Risk

INVESTMENT PERFORMANCE OF LISTED PROPERTIES

3 OF 3

OCTOBER 2011

PREPARED FOR ENGLISH HERITAGE

TABLE OF CONTENTS

1. Introduction	3
2. Summary	4
3. Methodology	5
4. Analysis	7
5. Sectors	9
Total Return	9
Initial Yield	12
6. Regional analysis	15
Retail	15
Office	19
Industrial	25

Appendix 1: Glossary of Terms

Appendix 2: IPD Geographic Definitions

Appendix 3: IPD Listed Index Sample Size by Sector and Geographic Region

1 INTRODUCTION

- 1.1 This paper has been produced as part of a study by Colliers International on behalf of English Heritage researching what can be done to encourage investment in heritage assets, especially those that are of industrial origin.
- 1.2 One of the objectives is to better understand how historic properties perform as investment properties. This is difficult to do because of the lack of consistent datasets for historical properties. Colliers suggested analysis of Investment Property Databank (IPD), the recognised real estate industry source for consistent and high quality data. Colliers and English Heritage explored a number of options with IPD to extract an appropriate range of performance measurements by sector and geography.
- 1.3 From the IPD Annual Index, IPD has extracted a dataset for Listed Properties allowing the benchmarking and analysis of investment performance over the period between 1981 and 2010.
- 1.4 For the purposes of this particular study, two reports have been produced in discussion of encouraging investment in industrial heritage assets at risk, as well as a Summary Report. This is the Investment Performance Report.

2 SUMMARY

- 2.1 The IPD data illustrates that, at the All Property level, the IPD Listed Property Index has generated a higher level of total return than the IPD Index for three, five, 10 and 30 year time periods. The listed office sector delivers the greatest consistent outperformance, with the industrial sector also delivering much stronger returns over the 30 year time period. The listed retail sector underperforms in the short to medium term time frame, but delivers outperformance over the 30 year period.
- 2.2 The performance of listed properties will be related to occupier demand and local market conditions. This is graphically illustrated by listed offices in the City, which generate lower returns than the City Office benchmark over three, five and 10 years. This weak performance is due to significant demand from financial and business services occupiers for modern, genuine Class A buildings offering ease of accessibility and large IT enabled floor plates.
- 2.3 Contrary to this, the West End attracts a more diverse tenant base, often seeking smaller, more characterful buildings and locations. In investment terms, the West End listed office market performs very strongly in the up cycle
- 2.4 Listed rest of South East offices perform more strongly than the benchmark total return over 30 years, but performance over the short to medium term is weaker than the benchmark. Listed rest of UK offices outperform the benchmark total return IPD figures over three, five, 10 and 30 years.
- 2.5 Observing the retail sector, the City, Mid Town and West End, South East and Eastern regions have shown the strongest performance over the short, medium and long term for both the IPD Retail Index and the IPD Retail Listed Index. Listed retail properties in the South East and Eastern regions show better than benchmark performance for three, five and 10 years.
- 2.6 Retail properties in Inner and Outer London have generated much lower returns than the benchmark over three, five and 10 years. Retail performance in the regional markets is more mixed with listed retail properties generally performing better than the IPD benchmark in the South East, South West, Eastern, North Eastern and West Midland regions.
- 2.7 For the industrial sector, London listed properties consistently underperform the IPD benchmark whereas listed rest of UK

industrials consistently outperform the IPD benchmark over the short, medium and long term.

2.8 Overall, the investment performance of listed buildings is likely to be strongest when they form part of a historic townscape within a prime location. The performance of the listed West End offices index amply demonstrates this, but this is also supported by the strong performance within the other office segments, rest of South East and rest of UK, that will include listed properties from the historic prime areas of the UK's major regional cities.

3 METHODOLOGY

3.1 From the IPD Annual Index, dating back to 1981, IPD has generated a bespoke performance series for Listed Properties – the IPD Listed Property Index. As of December 2010, this comprises 430 properties – 229 Retail, 126 Office, 39 Industrial and 36 Other.

Table 1: IPD UK All Property Listed Index composition

Sector	1981				2010			
	£m	%	No. Properties	%	£m	%	No. Properties	%
Retail	22	11.5	53	34.2	1,930	50.1	229	53.3
Office	160	83.3	86	55.5	1,391	36.1	126	29.3
Industrial	7	3.6	10	6.5	281	7.3	39	9.1
Other	3	1.6	6	3.9	250	6.5	36	8.4
Total	192	100	155	100	3,853	100	430	100

Source: IPD

3.2 The composition of the index has changed over time, as one would expect. In 1981, the Listed Index comprised 155 properties valued at £192 million. The number of listed properties in the Listed Index peaked at 759 in 1995, valued at £2 billion. In 2010, the number of Listed properties had fallen to 430, with a value of £3.85 billion.

3.3 This sample provides the basis for comparing the performance of “historic” properties from the main commercial sectors of the market against the IPD UK Property Index.

3.4 It was hoped that it would be possible to obtain some insight into the returns that might be expected from converting former industrial buildings. IPD extracted from the database those listed properties that had undergone development or major refurbishment. There were 71 in total. Only one of them was a former industrial building. The overall sample size was too small and too biased towards London offices to provide any worthwhile insight into the returns that might be expected from the development of listed buildings outside of central London.

4 ANALYSIS

4.1 The full IPD Listed Index database has been provided to English Heritage for detailed analysis of sectors, regions and different time periods. Data is available from 1981 to 2010 for the IPD Listed Property Index and the IPD UK Annual Index and allows comparison of the following metrics:

- Total Return
- Income Return
- Capital Growth
- Rental Value Growth
- Initial Yield
- Net Income Growth
- Equivalent Yield
- Yield Shift
- Yield Impact
- Capital Value
- No. of Properties

4.2 A comprehensive description of the above terms is detailed in **Appendix 1**.

4.3 The sample size by sector limits the geographical breakdown available, particularly for the industrial sector (see Table 2).

Table 2: IPD Regional classifications for England

<i>RETAIL</i>	<i>OFFICE</i>	<i>INDUSTRIAL</i>
City, Mid-town, West End	City	London
Inner & Outer London	Mid-town	Rest of UK
South East	West End	
South West	Rest of South East	
Eastern	Scotland	
East Midlands	Rest of UK	
West Midlands		
Yorkshire & Humberside		
North West		
North East		

Source: IPD

5 SECTORS

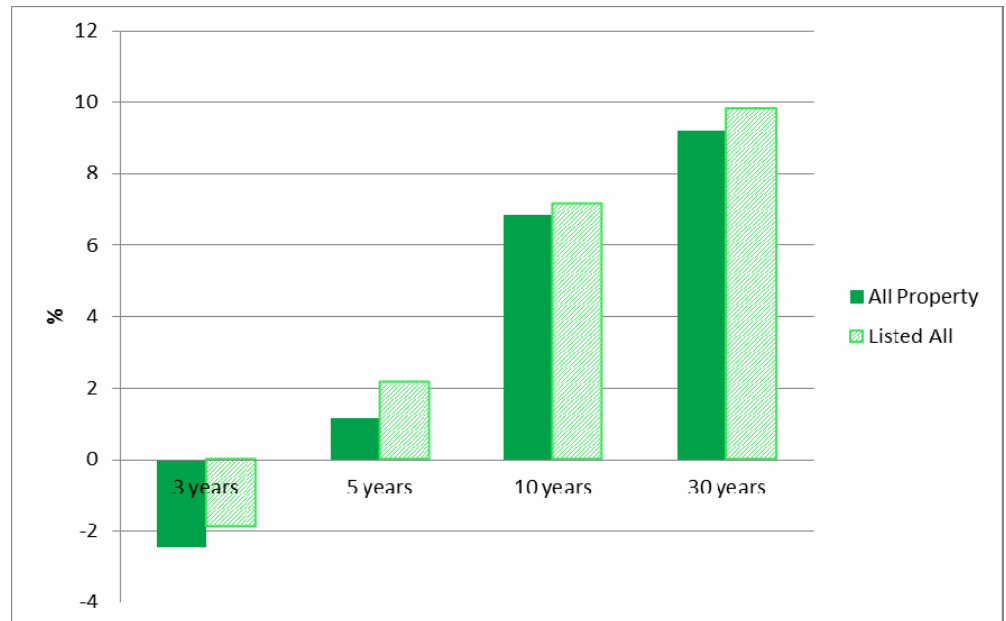
TOTAL RETURN

- 5.1 **Total Return** – is the change in capital value, less any capital expenditure incurred, plus net income, expressed as a percentage of capital employed over the period concerned.
- 5.2 Looking at Total Return as the key investment metric, at the All Property level the IPD Listed Property Index outperforms the IPD UK Index over the short, medium and long term (see Figure 1).
- 5.3 The listed office sector is the main driver behind this outperformance, with the listed industrial sector also generating better returns than the UK Index, particularly over 30 years (see Figures 3 and 4 overleaf). The strong performance of the Listed Office sector is, perhaps, not surprising given that a fair proportion of the office sample will be in central London and many of the buildings will be located in prime Mayfair / St James's. Observing the 2010 Listed Index breakdown by capital value shows that 16.9% of the index by value is in West End offices, with 25.3% by value in central London offices.
- 5.4 The listed retail sector (see Figure 2 overleaf) underperforms marginally in the short to medium term, although the sector generates slight outperformance of the IPD Retail Index over 30 years (by 10 bps).
- 5.5 The listed retail sector's short-term weak performance against the benchmark may be explained by the increasing demand that we have seen from retailers for ever larger units to accommodate wider ranges and provide improved shopper experience. Listed properties are often unable to meet the retailer requirements and investors are aware of this drawback. However, given the severe challenges that the UK retail sector faces through the weak economy and the structural changes resulting from strong superstore competition and online shopping, there are a host of factors impacting on investment performance in the retail sector.
- 5.6 While the performance of the listed industrial sector (Figure 4) has virtually tracked the IPD Industrial Index over three, five and 10 years, over the longer term 30 year period the outperformance is a considerable 160 bps¹. Long term performance is boosted by very

¹ bps = basis points or percentage points

strong returns (as high as 42.9% in 1989) in the listed industrial sector during the boom period of 1987 to 1990.

Figure 1: IPD Annualised Total Return – All Property. Source: IPD



PLEASE NOTE: The total return figures are annualised (i.e. the annual figure reported takes account of compounding) over three years (2008 – 2010), five years (2006 – 2010), 10 years (2001 – 2010) and 30 years (1981 – 2010).

Figure 2: IPD Annualised Total Return – Retail. Source: IPD

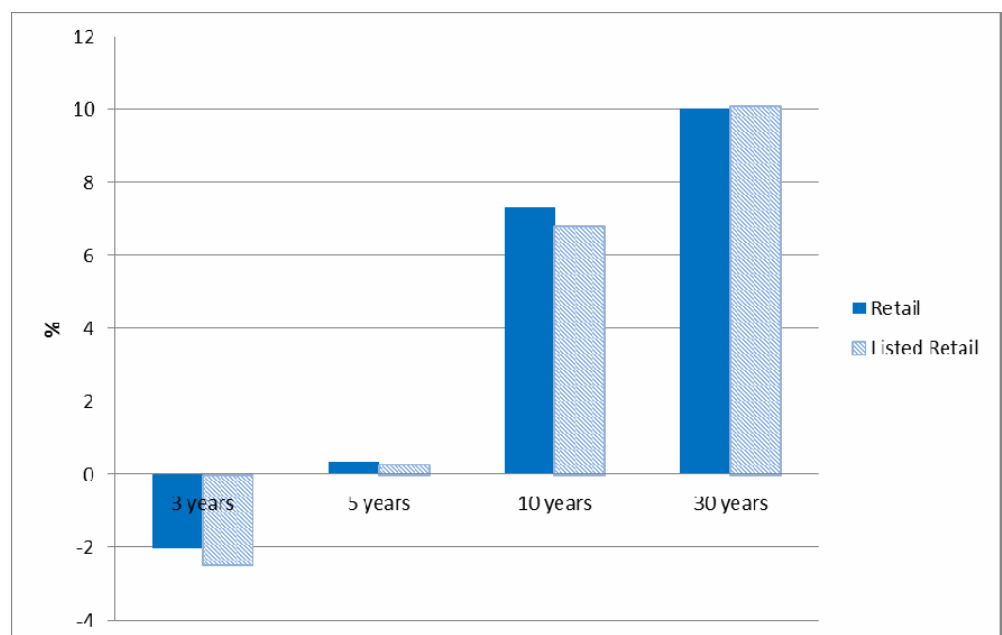


Figure 3: IPD Annualised Total Return – Office. Source: IPD

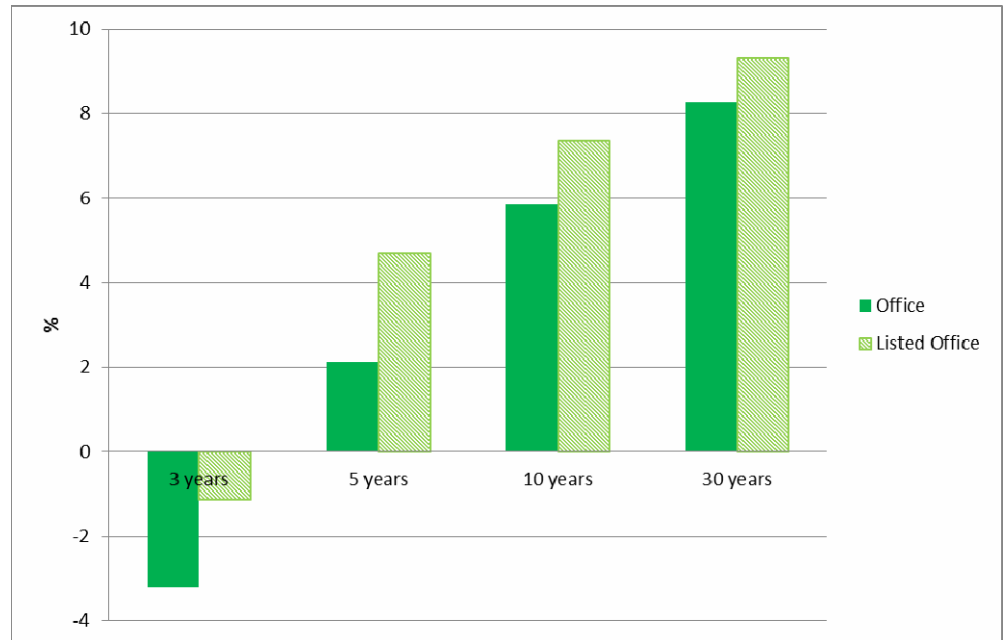
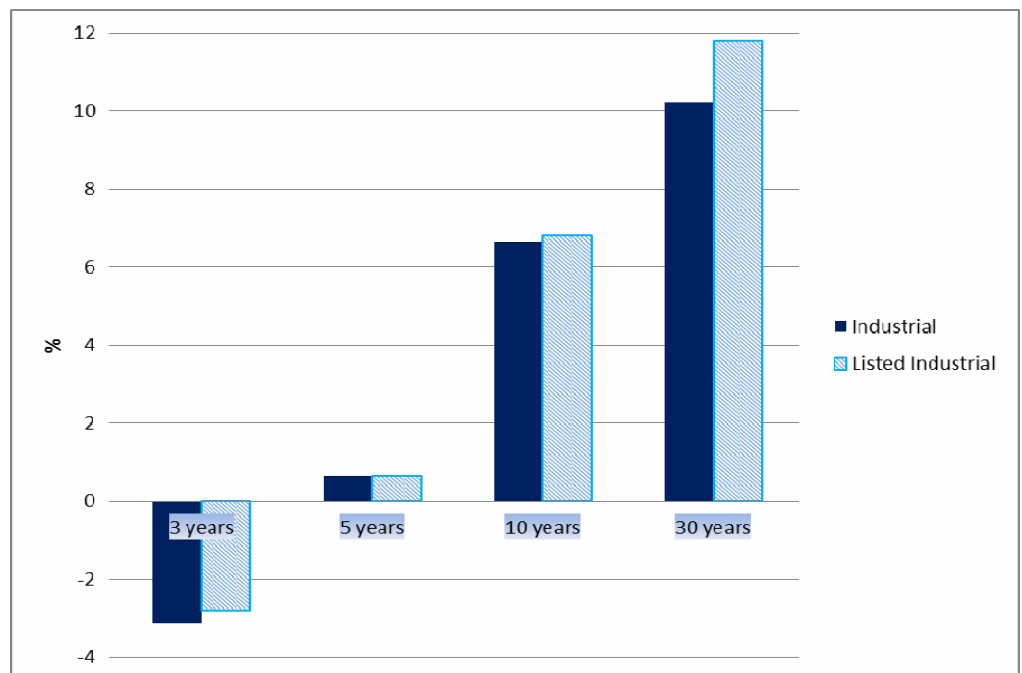


Figure 4: IPD Annualised Total Return – Industrial. Source: IPD



INITIAL YIELD

- 5.7 **Initial Yield** – is the rent passing (net of ground rent) as a percentage of the capital value at the same date.
- 5.8 Observing the initial yield profile over the 30 year time series (Figures 5 to 8 overleaf) clearly shows that the yield profile is generally lower for listed properties.
- 5.9 This is demonstrated across all sectors, although the industrial sector shows more volatility, particularly between 1981 and 1999.
- 5.10 The retail sector shows a marked differential in the early years of the observed period. This may reflect the fact that in the 1980s and 1990s, the institutional owners still held significant portfolios of high street shops. As the institutional fund sizes have grown, so these smaller lot sizes have been sold, often to private property companies and private investors and the performance of these properties has been lost to the Index. However, this argument is not entirely supported by the sample size which shows the Listed retail sample to have grown from 53 properties in 1981 to 229 in 2010, in part a reflection of the much greater number of funds and variety of investors that have joined the IPD index over the years.
- 5.11 The fact is that the majority of properties comprising the Listed Index, particularly in the retail and office sectors, are located within the central areas of towns and cities – the prime real estate locations. These locations are amongst the most sought after by occupiers (driving up rents) and investors (driving up prices). It is the investor demand that drives up prices and results in a lower initial yield profile for Listed properties.

Figure 5: IPD Initial Yield – All Property. Source: IPD

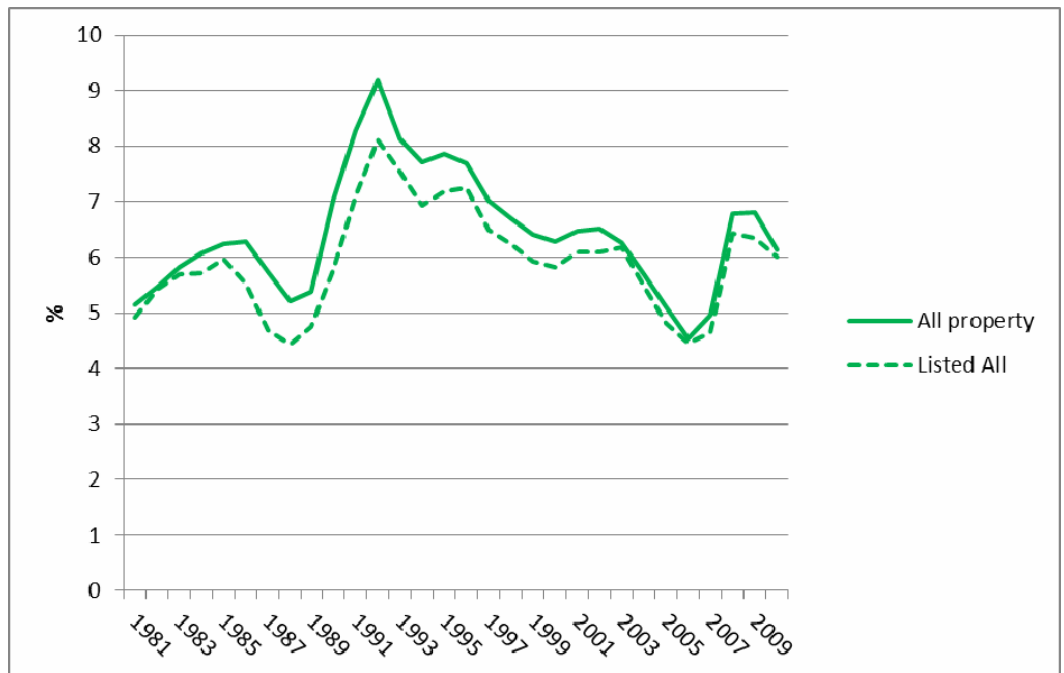
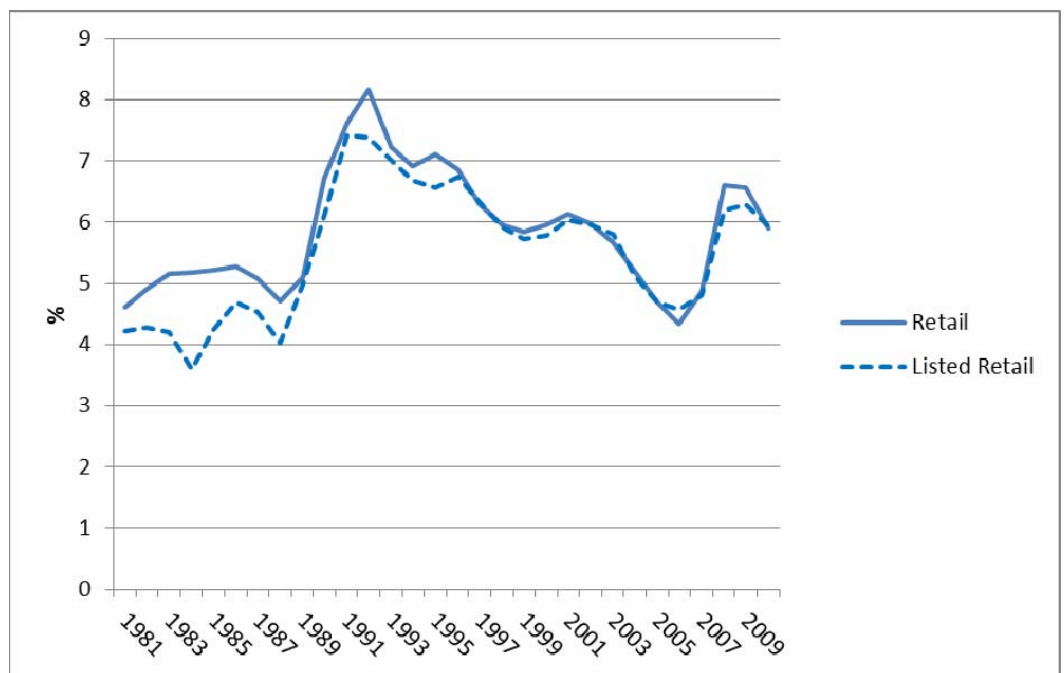


Figure 6: IPD Initial Yield – Retail. Source: IPD



5.12 With much of the Listed Index office stock being in the prime areas of central London it is not surprising that the initial yield for Listed Offices tends to trend below the IPD All Office initial yield figures.

5.13 In fact, by capital value, 16.9% of the Listed Index is represented by West End offices. As already mentioned many of these properties will be in the prime Mayfair and St James's areas of the West End and, as such, command the highest prices and lowest yields.

Figure 7: IPD Initial Yield – Office. Source: IPD

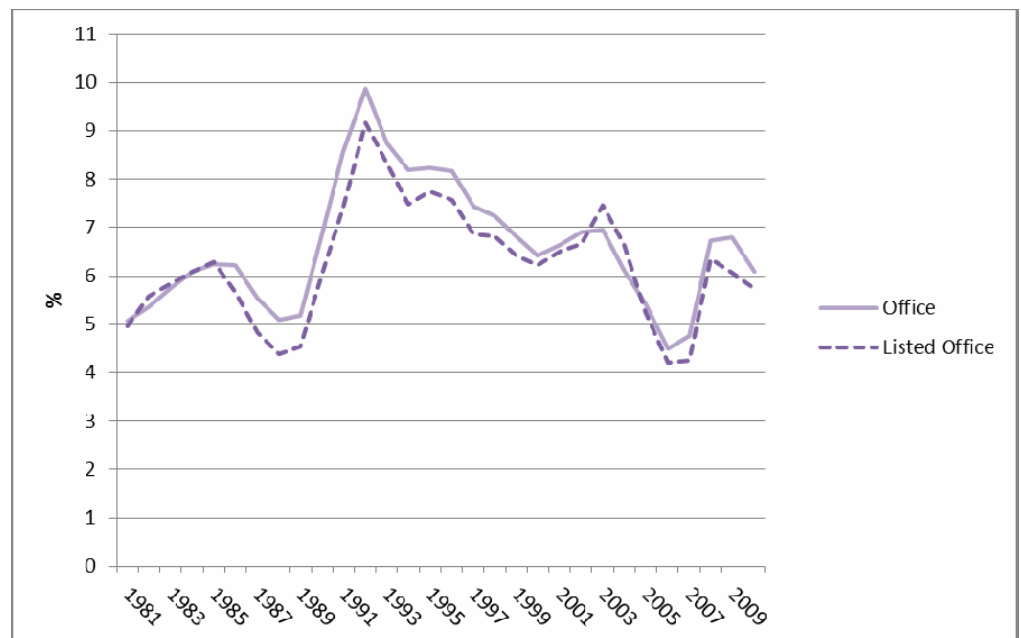
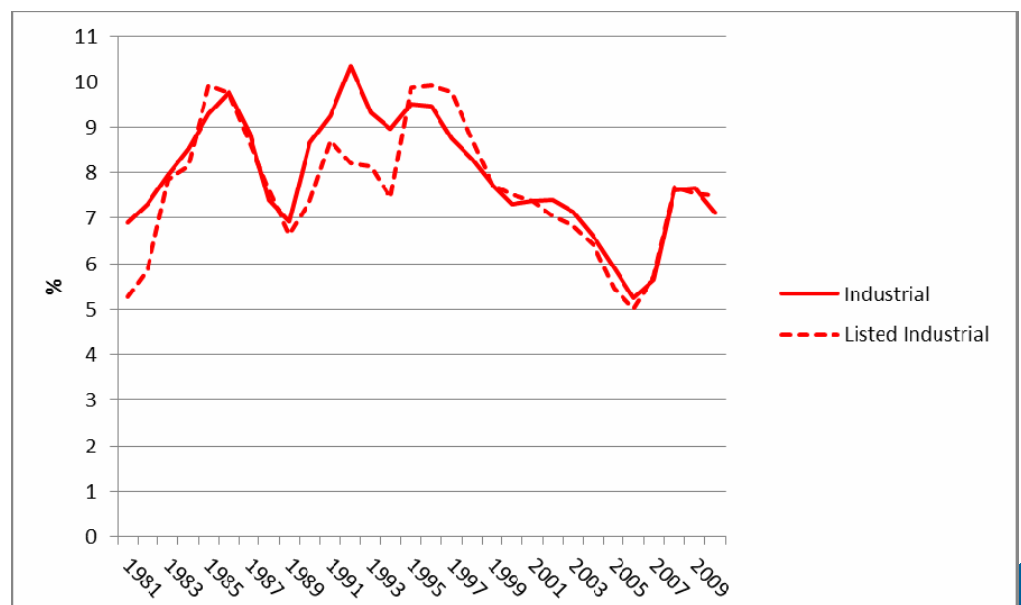


Figure 8: IPD Initial Yield – Industrial. Source: IPD



6 REGIONAL ANALYSIS

RETAIL

6.1 The sample for the retail sector allows a detailed analysis of regional differences in performance, although the sample size only allows a 30 year comparison for the following regions: City, Mid Town and West End, South East and North West.

Table 2: IPD Regional classifications for England

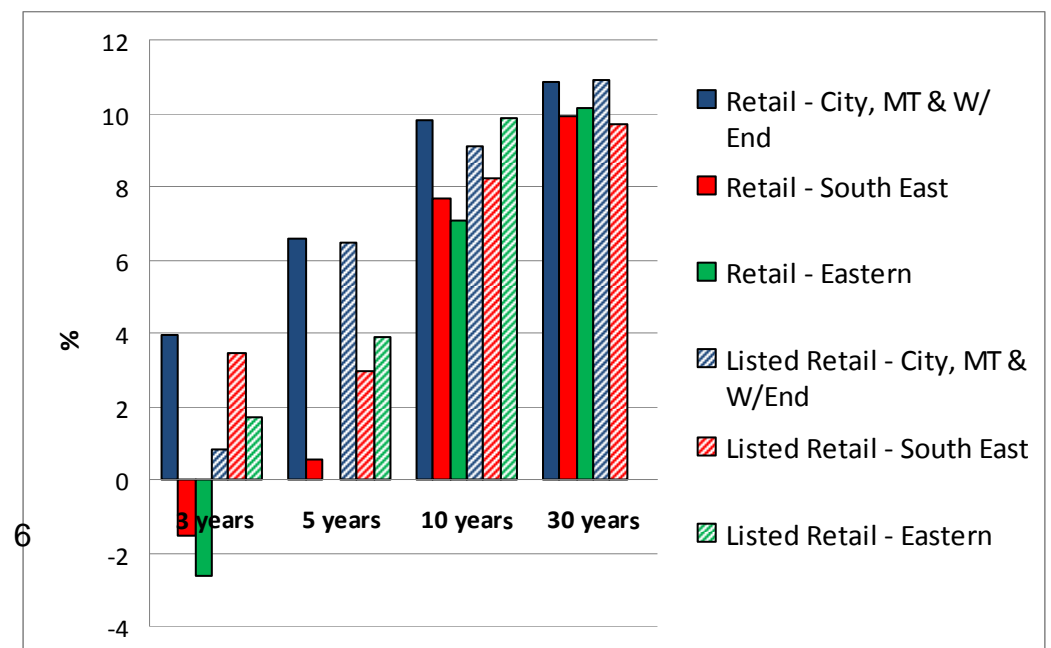
RETAIL TOTAL RETURN (%)	3 yrs		5yrs		10 yrs		30 yrs	
	IPD	Listed	IPD	Listed	IPD	Listed	IPD	Listed
City, MT and WE	4.0	0.8	6.6	6.5	9.8	9.1	10.9	10.9
South East	-1.5	3.4	0.6	3.0	7.7	8.2	9.9	9.7
North West	-2.1	-5.9	-0.3	-3.1	6.5	5.1	9.4	9.5

Source: IPD

6.2 Observing the short, medium and long term performance, the City, Mid Town and West End, South East and Eastern regions demonstrate the strongest performance from both the IPD Retail Index and the Listed Retail Property Index. The retail listed properties exhibit consistent outperformance over three, five and 10 years for the South East and Eastern regions (Figure 9).

Figure 9: IPD Annualised Total Return - City, MT & WE, SE and Eastern Retail.

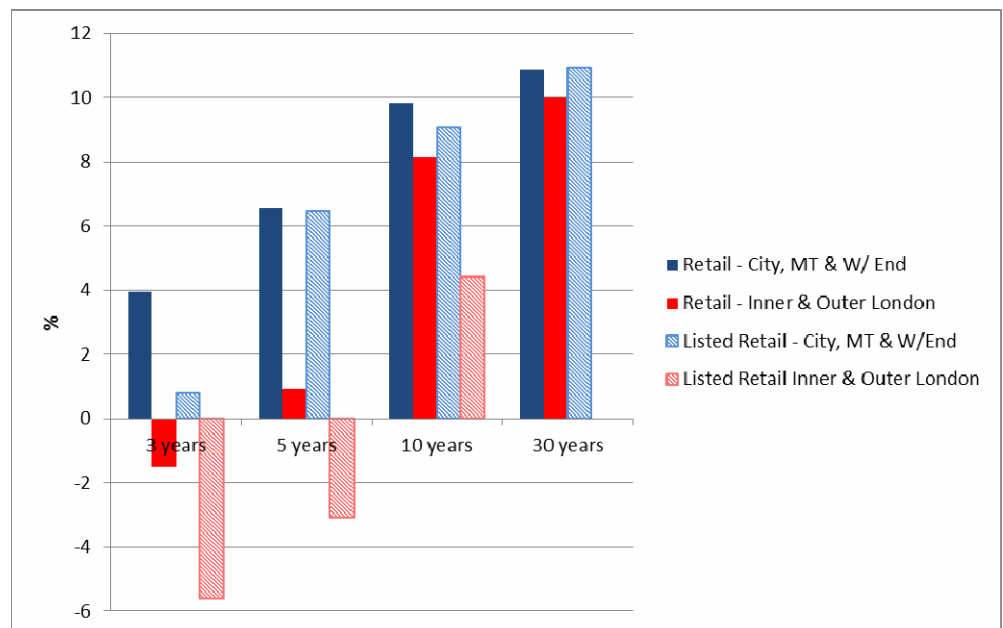
Source: IPD



West End have generally performed in line with the All Retail City, Mid Town and West End Index.

- 6.4 However, the performance of listed retail properties in inner and outer London has been much weaker than the benchmark, generating an annualised total return of just 4.4% over 10 years against the benchmark of 8.1% and -5.6% over three years against the benchmark of -1.5% (Figure 10).
- 6.5 As previously mentioned, the short term weaker performance for listed retail properties may be due to these properties failing to match current retailer requirement for larger units. In addition, another factor could be the relatively small sample size for inner and outer London that ranges from seven to 13 over the 10 year period 2001 to 2010.
- 6.6 The limited sample size for listed retail properties within inner and outer London over the 30 year period prohibits publishing the data.

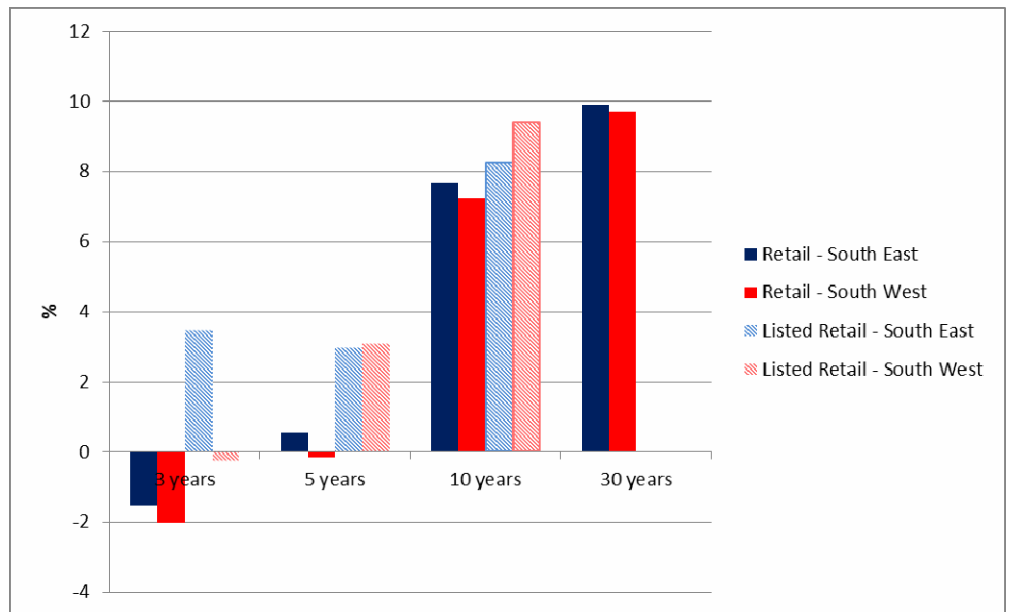
Figure 10: IPD Annualised Total Return - London Retail. Source: IPD



Note: The sample size for listed inner and outer London retail is not large enough to provide a 30 year figure

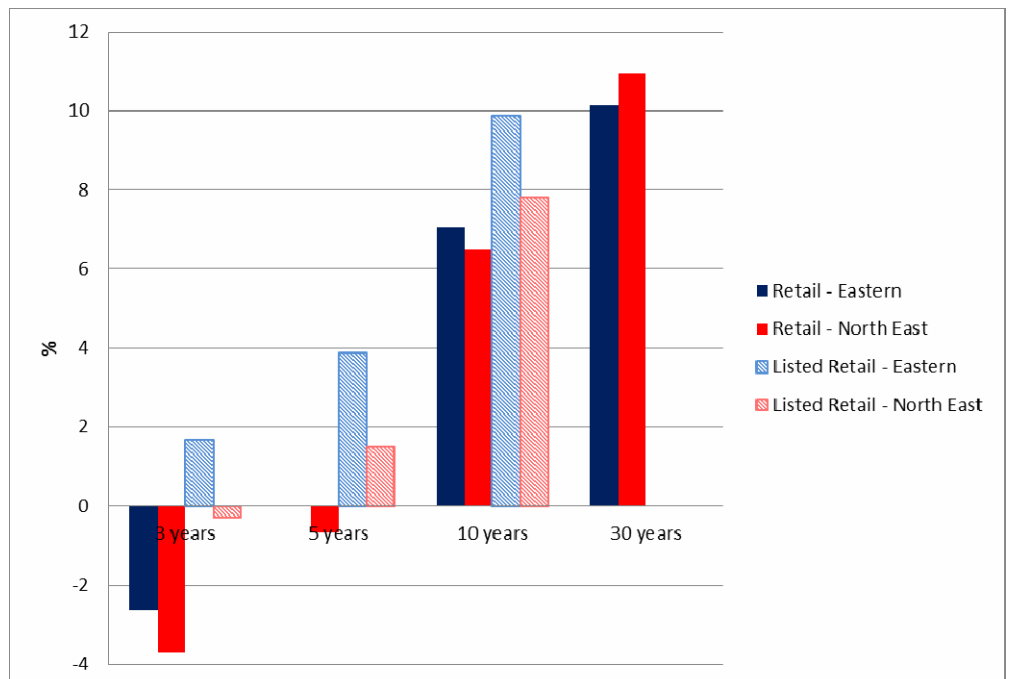
- 6.7 The following charts illustrate the regional retail performance. The limited sample size prohibits the publishing of the 30 year listed returns data for some regions.

Figure 11: IPD Annualised Total Return - SE and SW Retail. Source: IPD



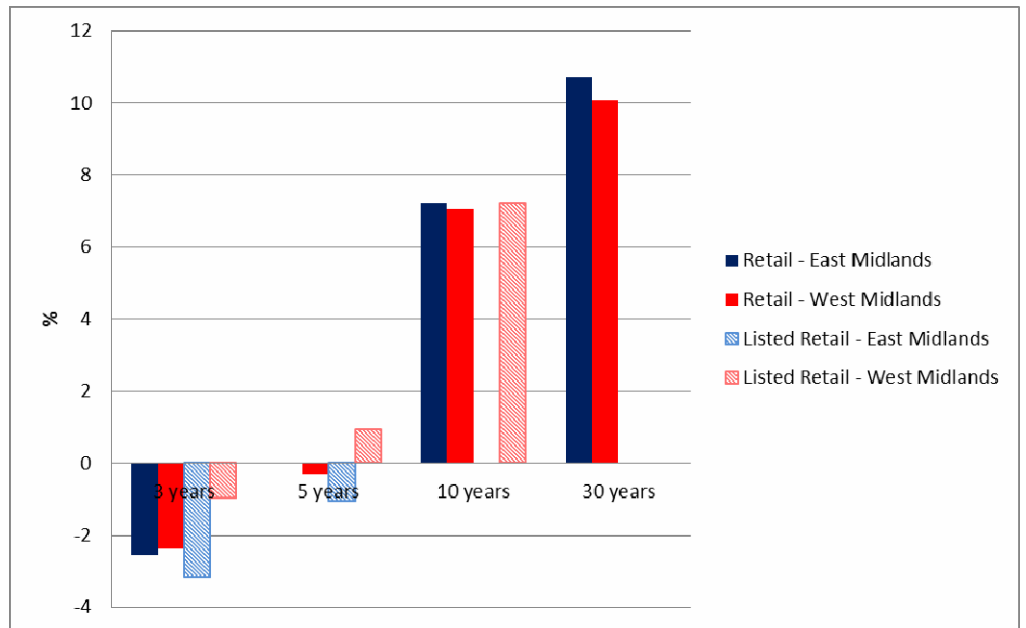
Note: The sample size for listed South East and South West retail is not large enough to provide a 30 year figure

Figure 12: IPD Annualised Total Return - East and NE Retail. Source: IPD



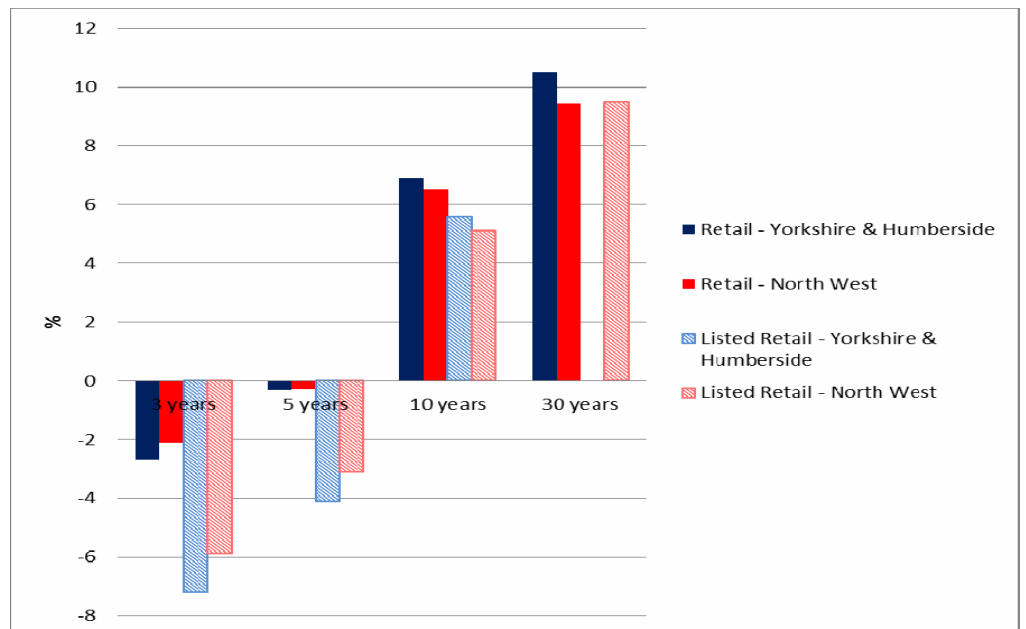
Note: The sample size for listed Eastern and North East retail is not large enough to provide a 30 year figure

Figure 13: IPD Annualised Total Return - E Mids and W Mids Retail. Source: IPD



Note: The sample size for listed retail is not large enough to provide East Midlands (10 and 30 yrs) and West Midlands (30 yrs) data

Figure 14: IPD Annualised Total Return - NW and YH Retail. Source: IPD



Note: The sample size for listed Yorkshire and Humberside retail is not large enough to provide a 30 year figure

OFFICE

6.8 The office sector sample allows a detailed analysis of the City, West End, South East and Rest of UK markets. Listed offices in the City have consistently underperformed the IPD City Office benchmark and have generated a -6.8% annualised return over the last three years against the City benchmark of -2.5% (see Figures 15 and 16). This is likely to be a reflection of the specific type of occupier and investor demand in the City. Many financial and business services occupiers require prime Grade A class offices offering large floor plates. It can be a challenge for listed buildings to meet these requirements.

Figure 15: IPD Total Return - City Offices. Source: IPD

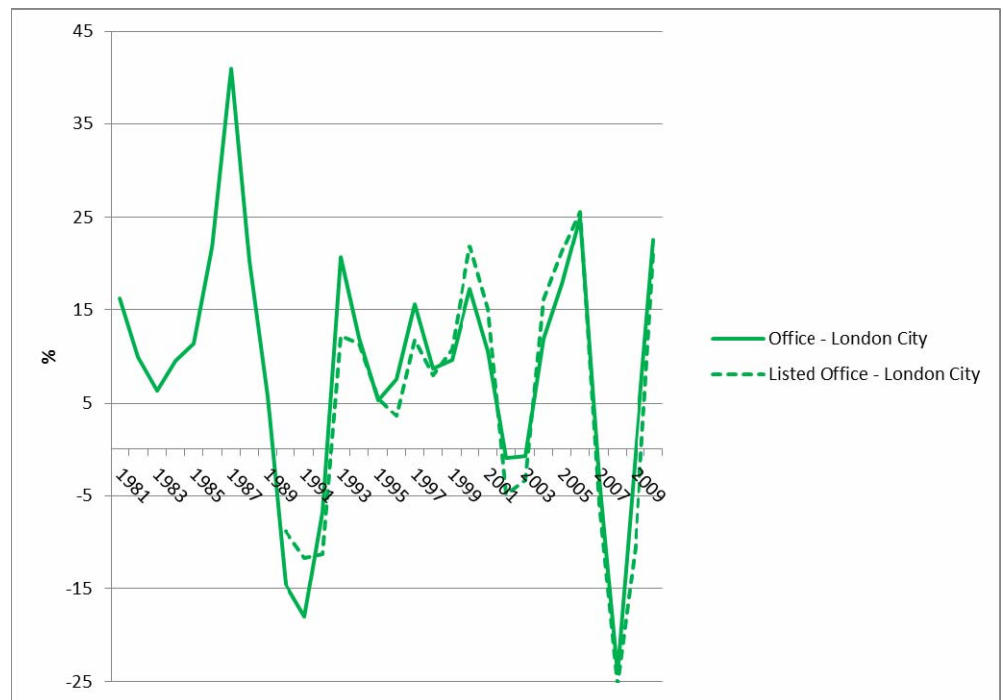
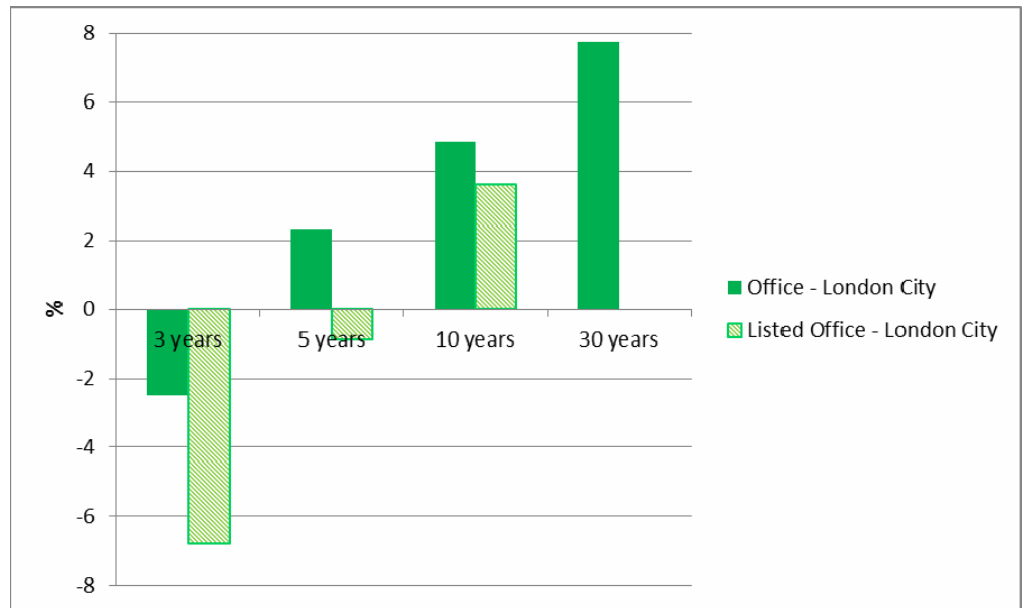


Figure 16: IPD Annualised Total Return - City Offices. Source: IPD



Note: The sample size for listed City offices is not large enough to provide a 30 year figure

6.9 The West End data shows a more positive story, with the Listed West End Office Index outperforming the IPD West End Office Index over the short, medium and long term. In 2010, West End Listed Offices produced an exceptional total return of 29.9%. This performance was driven mainly by strong capital growth as high demand from private investors and overseas funds bid up prices of prime West End real estate.

Figure 17: IPD Total Return - West End Offices. Source: IPD

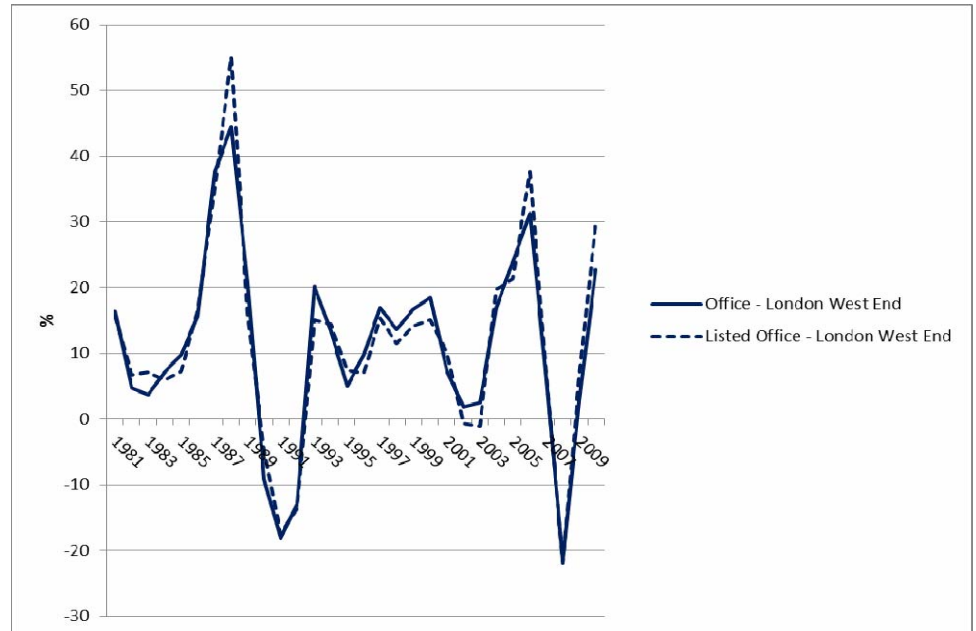
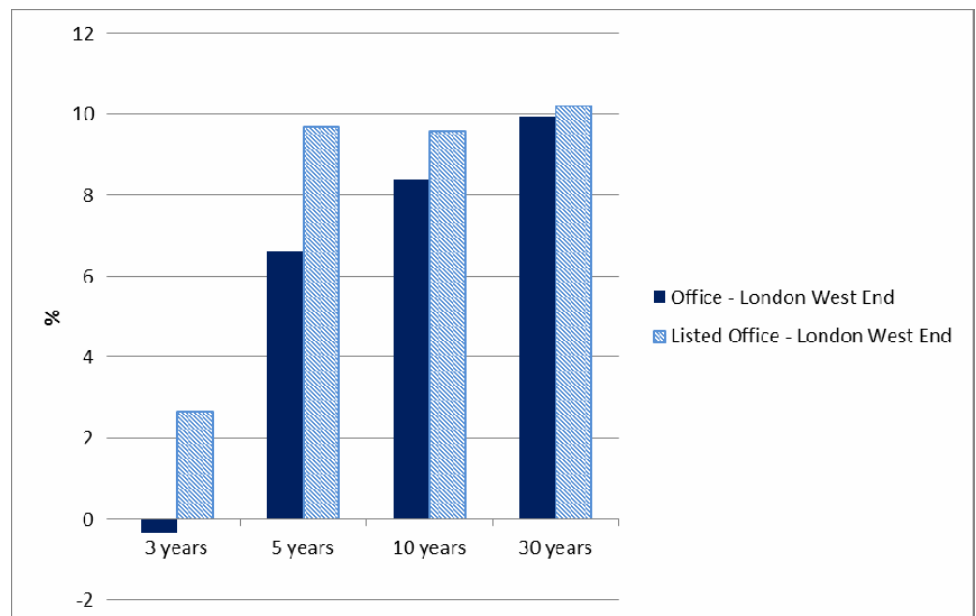


Figure 18: IPD Annualised Total Return - West End Offices. Source: IPD



6.10 Observing both the IPD Office Index and the Listed Index, the South East and rest of UK Offices have significantly underperformed the West End over the short, medium and long term, but show a more mixed picture against City offices. Listed Offices rest of UK consistently outperform rest of UK offices throughout all time periods, generating a healthy 30 year annualised total return of 8.6% and 7.8% over 10 years.

Figure 19: IPD Total Return - rest of SE Offices. Source: IPD

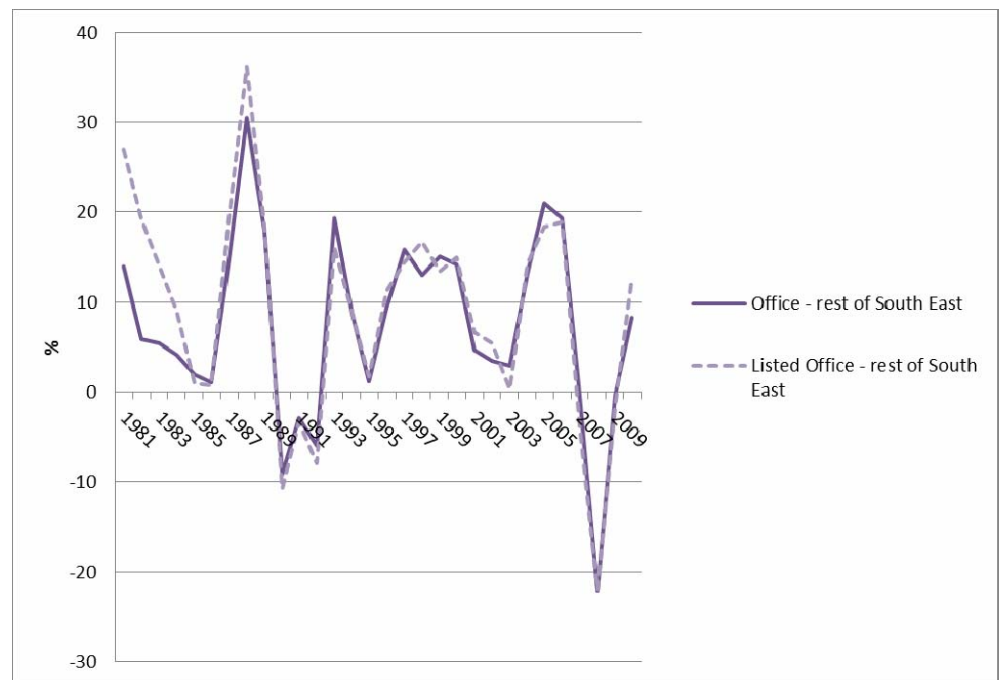


Figure 20: IPD Annualised Total Return - rest of SE Offices. Source: IPD

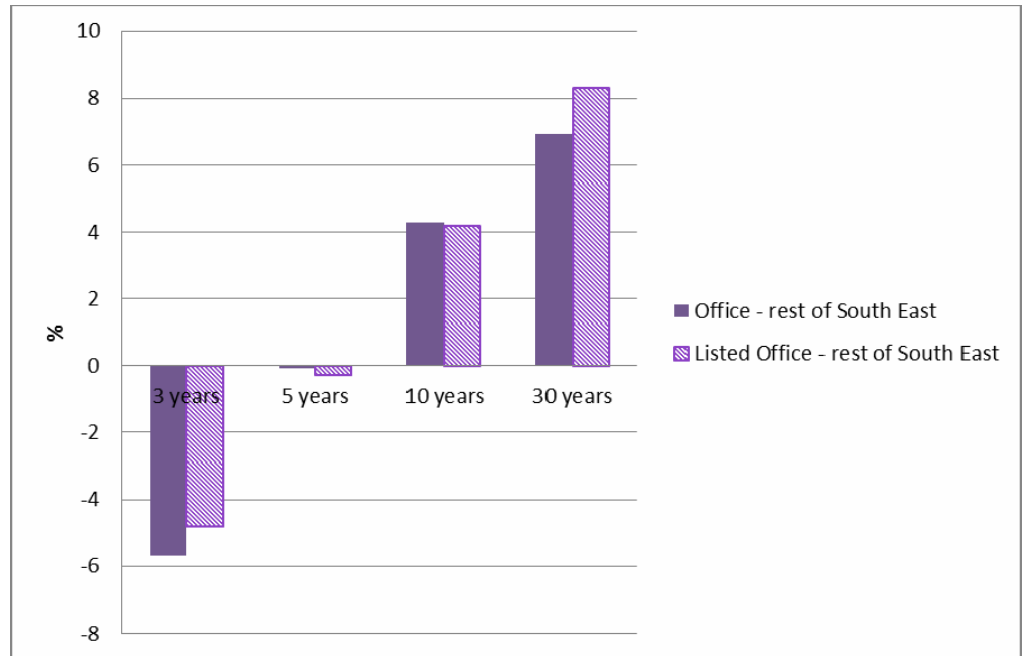


Figure 21: IPD Total Return - rest of UK Offices. Source: IPD

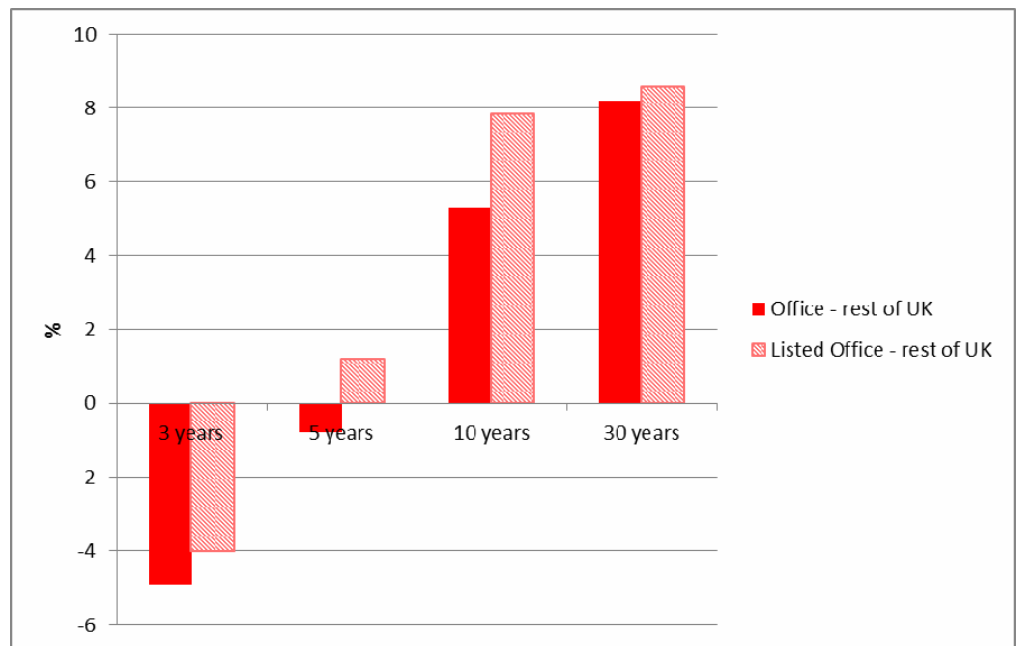
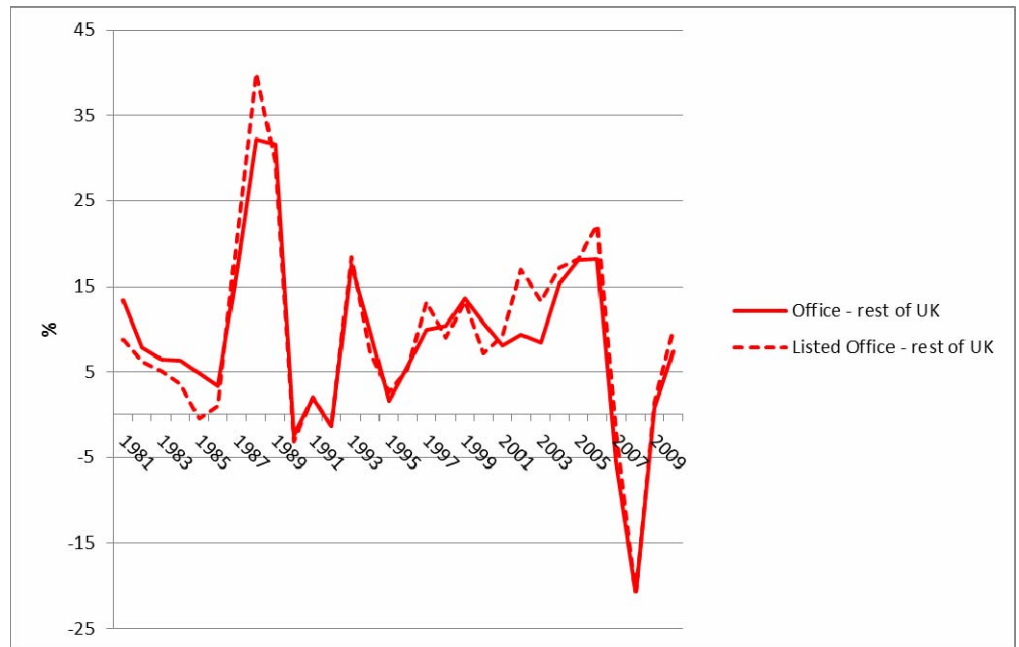


Figure 22: IPD Annualised Total Return - rest of UK Offices. Source: IPD



INDUSTRIAL

6.11 The London Listed Industrial Index underperforms for the three annualised periods for which data is available (Figure 24). However we are observing the performance of a limited sample of between six and eight properties, so some caution is required.

Figure 23: IPD Total Return - London Industrial. Source: IPD

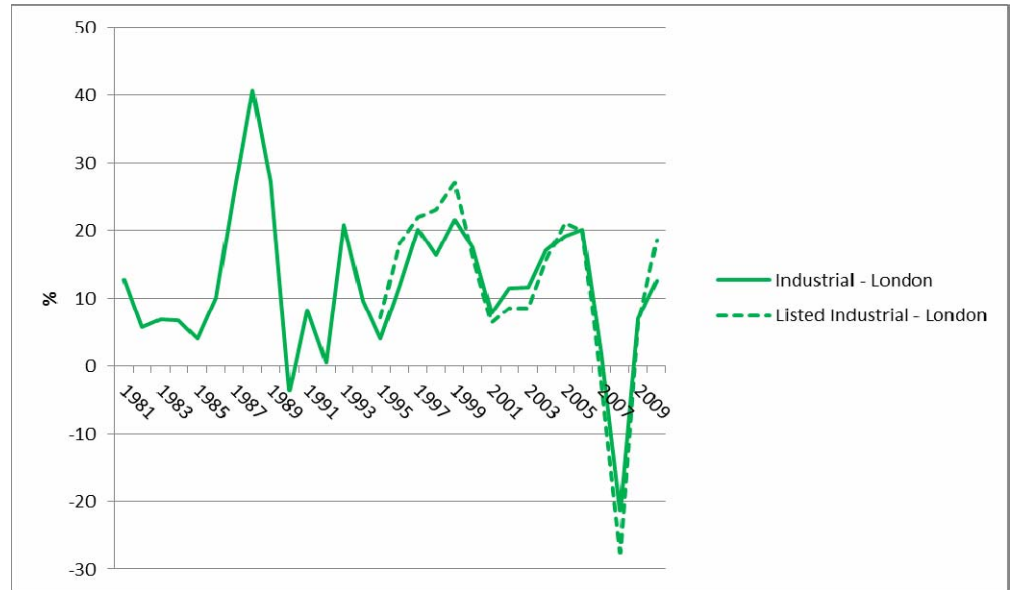
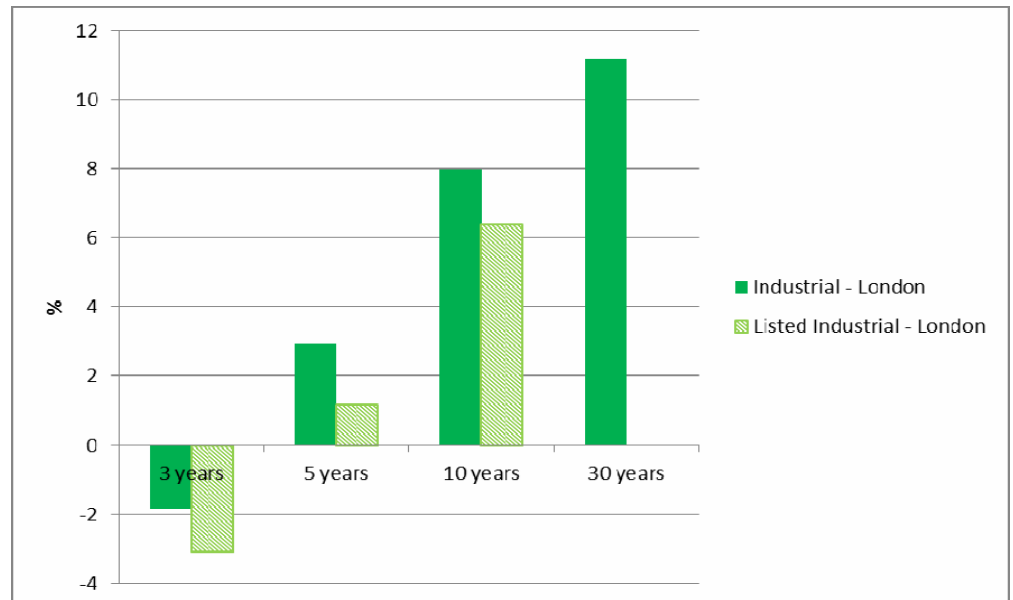


Figure 24: IPD Annualised Total Return - London Industrial. Source: IPD



Note: The sample size for listed London industrial is not large enough to provide a 30 year figure

6.12 Listed Industrial properties for the rest of UK have outperformed the IPD rest of UK Industrial Index over the short, medium and long term with a strong 11.3% annualised total return over 30 years vs. 10.0% for the IPD rest of UK Industrial Index (Figure 26). Much of this strong performance came in the periods 1986 – 1990 and 1998 to 2001, both relatively strong periods for the UK economy.

Figure 25: IPD Total Return - rest of UK Industrial. Source: IPD

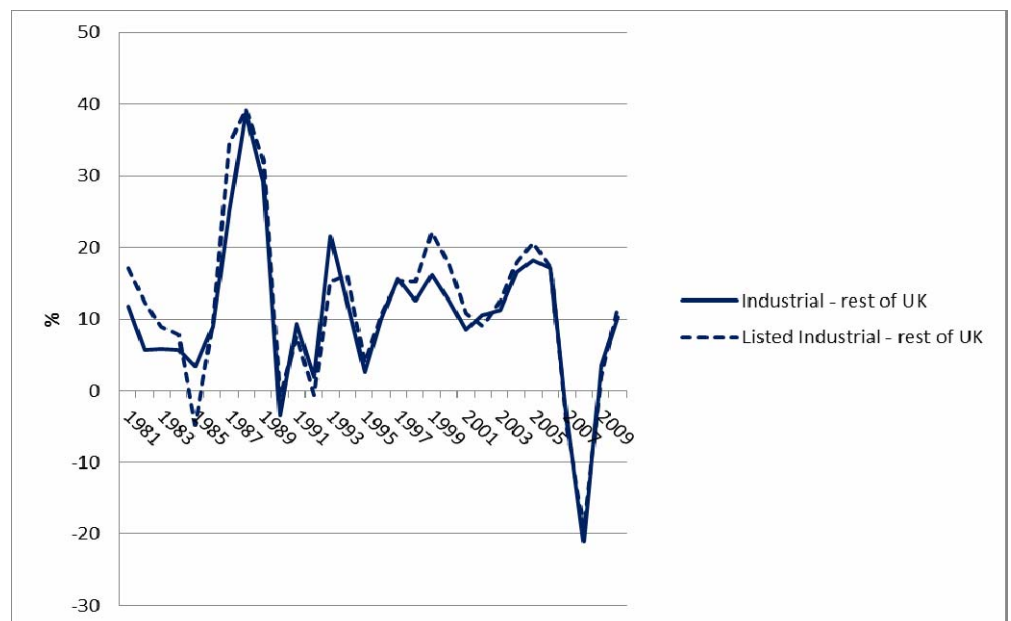
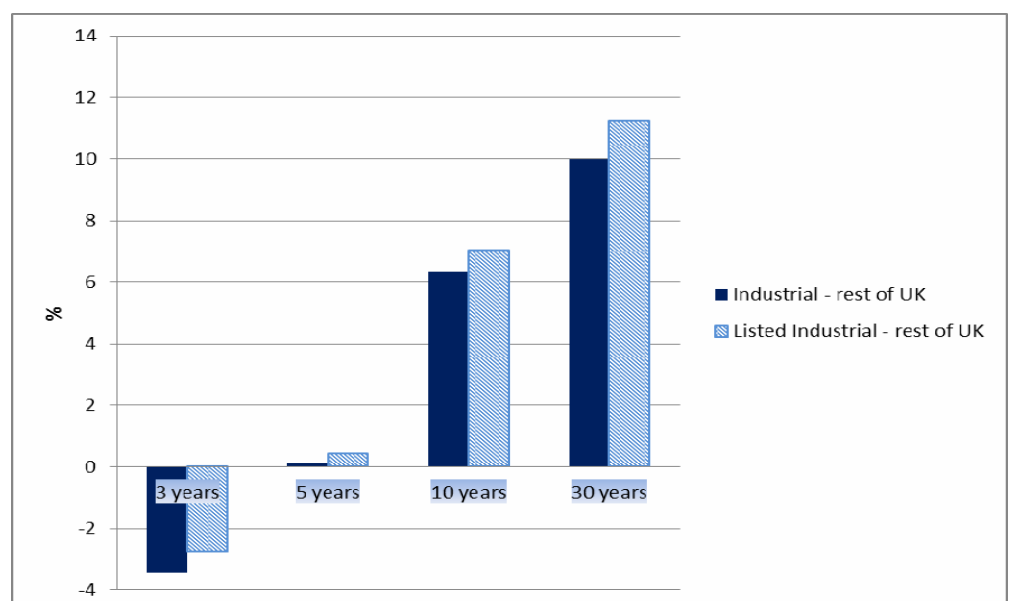
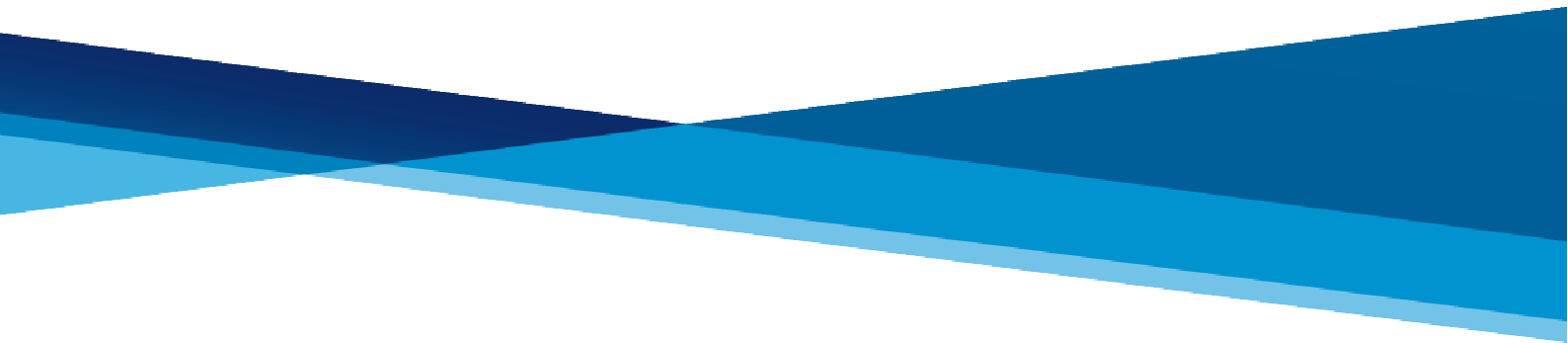


Figure 26: IPD Annualised Total Return - rest of UK Industrial. Source: IPD

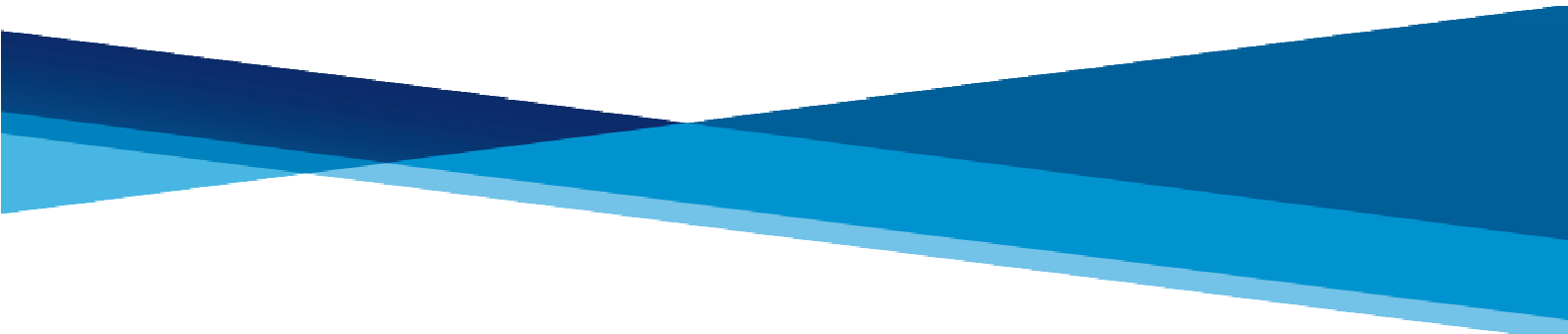


APPENDIX 1: GLOSSARY OF TERMS



- **Total Return** – the change in capital value, less any capital expenditure incurred, plus net income, expressed as a percentage of capital employed over the period concerned.
- **Income Return** - net income expressed as a percentage of capital employed over the period concerned.
- **Capital Growth** – the change in capital value, less any capital expenditure incurred, expressed as a percentage of capital employed over the period concerned.
- **Rental Value Growth** - the rent that the valuer estimates could be charged if the unit were let in the open market on the valuation date expressed as a percentage of the estimated rent at a preceding date.
- **Initial Yield** – the rent passing (net of ground rent) as a percentage of the capital value at the same date.
- **Net Income Growth** – growth in gross rent passing, net of ground rent, expressed as a percentage of the income at a preceding date.
- **Equivalent Yield** – IPD estimate of the discount rate that equates to the future income flows to the current capital value. IPD projected cashflows are estimated from records of current tenant rents, ground rents, open market rental values, rent review and lease expiry dates, and tenant options to break, assuming upward only rent reviews to expiry of the lease and the options to break are exercised when the tenant rent exceeds the market rent. Vacant or void units are assumed to be let over a period of 18 months.
- **Yield Shift** – the percentage change in the Equivalent Yield on all properties held as standing investments through the year.
- **Yield Impact** – an indicator of the change in capital values due to changes in the Equivalent Yield on standing investment through the year, calculated as the Yield Shift expressed as a percentage of yield at the year end with the sign reversed to show the impact on values.
- **Capital Value** - open market capital values as supplied by the portfolio's valuers. In the UK these must be in accordance with the RICS definition of Open Market Value, stated net of purchasers' costs. In other markets locally defined standards are reviewed and where appropriate adopted, subject to the overriding requirement that any prescribed method is based on open market principles.
- **Annualised Return** – the yearly increase (or decrease) in the value of an investment including the effects of compounding.

APPENDIX 2: IPD GEOGRAPHIC DEFINITIONS



City	The area bounded by Clerkenwell Road/Old Street, City Road, Liverpool Street, Middlesex Street, the Tower, the river Thames, Farringdon Street, Farringdon Road.
Mid-town	The area bounded by Farringdon Street, Farringdon Road, Clerkenwell Road/Theobalds Road, Charing Cross Road, Haymarket, Northumberland Avenue, the river Thames.
West End	The area bounded by Northumberland Avenue, Haymarket, Charing Cross Road, Tottenham Court Road, Marylebone Road, Edgware Road, Park Lane, Kensington Gardens (south side), Gloucester Road (SW7, SW3 western boundary), Beaufort Street, the river Thames.
Inner London	Includes the following postcodes: all of NW1, NW8, W2, W11, W6, W14, W8, SW5, SW6, SW10, SW11, and SW8. It also included parts of SE11, (to Kennington Road), SE1 (to Borough Road and Long Lane), E1 (including Spitalfields, Aldgate East and Whitechapel).
Outer London	The remainder of London within the old GLC boundary, excluding the City, West End, Mid-Town and inner London.
South East	Buckinghamshire, Berkshire, East Sussex, Hampshire, Isle of Wight, Kent, Oxfordshire, Surrey and West Sussex.
South West	Cornwall, Devon, Dorset, Gloucestershire, Somerset, Wiltshire and Bristol.
Eastern	Hertfordshire, Bedfordshire, Essex, Cambridgeshire, Norfolk, Suffolk
East Midlands	Derbyshire, Leicestershire, Lincolnshire, Northamptonshire and Nottinghamshire, Rutland.
West Midlands	West Midlands, Herefordshire and Worcestershire, Shropshire, Staffordshire and Warwickshire.
Yorkshire and Humberside	North, South and West Yorkshire and Humberside.
North West	Greater Manchester, Merseyside, Cheshire, Cumbria and Lancashire.
North East	Tyne and Wear, Durham, Cleveland and Northumberland.

APPENDIX 3:
IPD LISTED INDEX

SAMPLE SIZE BY SECTOR
AND GEOGRAPHIC REGION

A decorative graphic at the bottom of the page consisting of several overlapping, wavy bands in various shades of blue, ranging from light to dark, creating a modern, abstract design.

No. Properties				
RETAIL	1981	1990	2000	2010
City, MT & W/End	10	19	51	24
Inner & Outer London	1	3	9	13
South East	9	26	49	24
South West	5	11	30	12
Eastern	2	6	18	15
East Mids	1	6	10	13
West Mids	4	14	22	36
Yorks & Humberside	3	8	14	22
North West	15	33	23	22
North East	0	3	7	8
RETAIL TOTALS (1)	50	129	233	189

No. Properties				
OFFICE	1981	1990	2000	2010
City	3	12	35	17
Mid-town	4	14	20	9
West End	40	87	97	45
Rest of South East	10	30	21	14
Rest of UK (ex Scotland)	23	31	29	28
OFFICE TOTALS (2)	80	174	202	113
INDUSTRIAL				
London	0	3	6	6
Rest of UK	10	14	28	33
ENGLAND INDUSTRIAL TOTALS (3)	10	17	34	39
IPD UK ALL PROPERTY LISTED TOTALS (4)	155	398	608	430

Notes:

- (1): Retail sample allows England coverage only
- (2): Offices rest of UK includes Wales and N. Ireland, but excludes Scotland
- (3): Industrials rest of UK includes Scotland, Wales and N. Ireland
- (4): Numbers do not sum to total of Retail, Office and Industrial because IPD All Property includes "Other" (e.g. Leisure, Automotive etc.) and covers England, Wales, Scotland and N. Ireland



CONTACT DETAILS

Colliers International
Research and Forecasting
9 Marylebone Lane
London
W1U 1HL

www.colliers.com/uk

This tender is submitted by Colliers International. The information in this tender is the intellectual property of Colliers International. The individuals, companies, partnerships, unincorporated associations and other bodies to whom it is submitted may neither publish, disclose to another, expose for library access nor in any other way communicate any part of it without the prior written consent of Colliers International.

Colliers International is the licensed trading name of Colliers International UK plc. Company registered in England & Wales no. 4195561. Registered office: 9 Marylebone Lane, London W1U 1HL.

If you would like this document in a different format, please contact
our Customer Services department:
Telephone: 0870 333 1181
Fax: 01793 414926
Textphone: 01793 414878
E-mail: customers@english-heritage.org.uk