

Smarter Real Estate Markets

A Comparison of the Dutch & UK Markets

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Smarter Real Estate Markets: A Comparison of the Dutch & UK Markets

Agenda

- Market Transparency

- Some explanations:

 - Formal**

 - Liquidity
 - Cross-Border investment
 - Returns Data
 - Valuation Practice

 - Informal**

 - Information sharing
 - Approach of Valuers

- Summary/Conclusions

Transparency



Real Estate Transparency Index

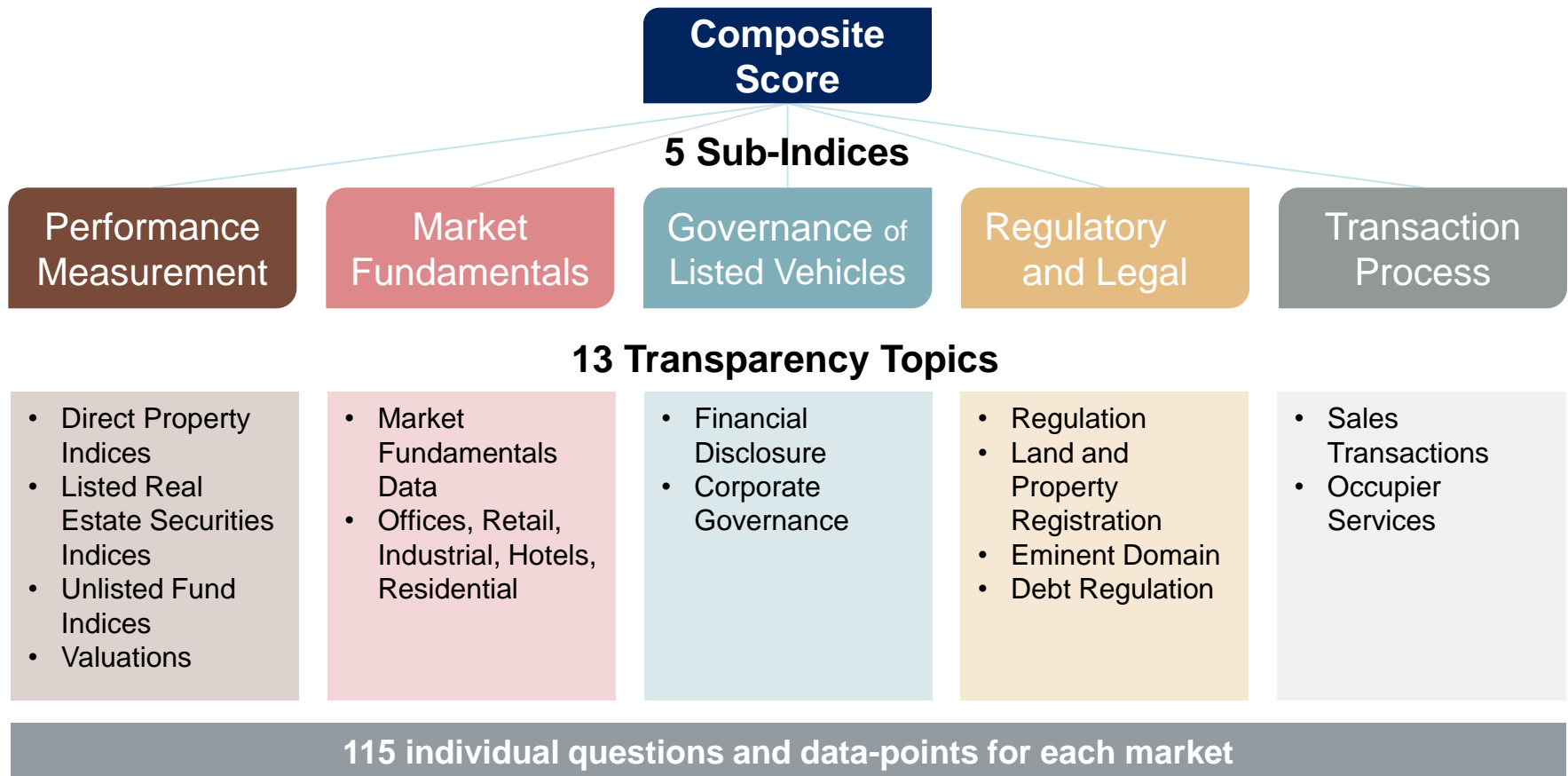
A Brief History

- Global Real Estate Transparency Index first published in 1999
- Updated 2001, 2004, 2006, 2008, 2010, 2012 and 2014 - continually refined to reflect evolving conditions
- The only Index to address the transparency of commercial real estate
- Helps investors, corporate occupiers and retailers anticipate challenges of transacting, owning or operating in a foreign market
- Provides a gauge for governments and industry organisations to improve transparency in home markets



Global Real Estate Transparency Index 2014

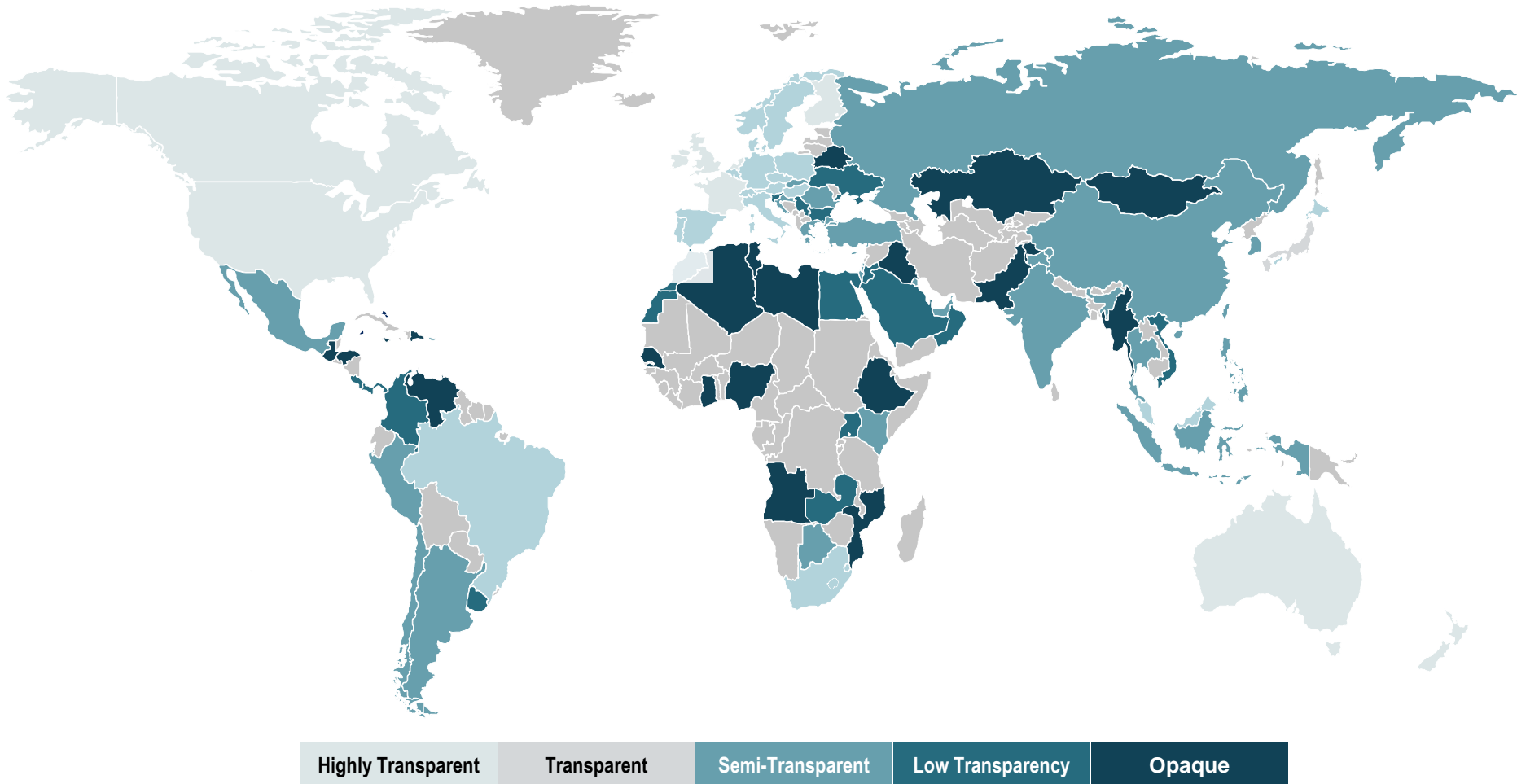
Incorporating 115 different factors



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Transparency: A Key Consideration When Entering Any Market

JLL Global Real Estate Transparency Index



GRETI Index 2014 – Global Hierarchy

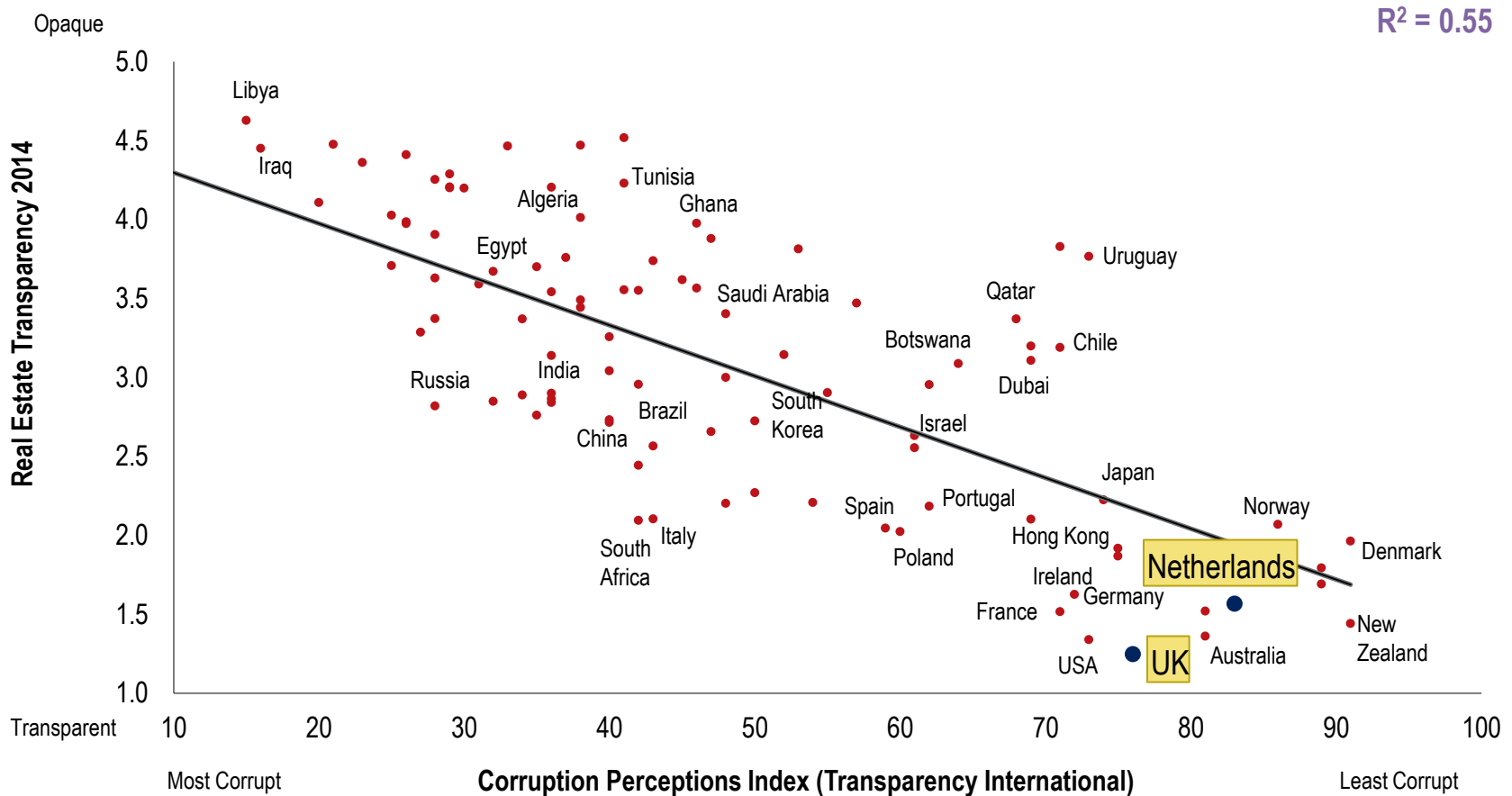
<p>United Kingdom, United States, Australia, New Zealand, France, Canada, Netherlands, Ireland, Finland</p>	 <p>Highly Transparent</p>
<p>Switzerland, Sweden, Germany, Singapore, Hong Kong, Belgium, Denmark, Poland, Spain, Norway, South Africa, Austria, Italy, Portugal, Czech Republic, Hungary, Japan, Malaysia, Brazil (Tier I)</p>	 <p>Transparent</p>
<p>Taiwan, Romania, Israel, Slovakia, Greece, Turkey, China (Tier I), Thailand, Russia (Tier I), Philippines, Indonesia, India (Tier I), Mexico, India (Tier II), South Korea, Puerto Rico, Brazil (Tier II), Croatia, China (Tier II), Botswana, Dubai, India (Tier III), Mauritius, Chile, Abu Dhabi, China (Tier III), Kenya, Cayman Islands, Argentina, Qatar, Russia (Tier II), Bahrain, Peru</p>	 <p>Semi Transparent</p>
<p>Slovenia, Zambia, Colombia, Serbia, Bulgaria, Saudi Arabia, Vietnam, Jordan, Russia (Tier III), Macau, Egypt, Panama, Ukraine, Kuwait, Morocco, Uruguay, Costa Rica, Bahamas, Oman, Lebanon, Uganda*</p>	 <p>Low Transparency</p>
<p>Ghana, Kazakhstan, Jamaica, Nigeria, Venezuela, Mozambique*, Guatemala, Algeria, Dominican Republic, Tunisia, Pakistan, Belarus, Angola, Honduras, Iraq, Ethiopia*, Mongolia*, Myanmar, Senegal*, Libya</p>	 <p>Opaque</p>

* New Countries added to the 2014 Survey

Source: Jones Lang LaSalle, LaSalle Investment Management

Real Estate Transparency Index and Corruption

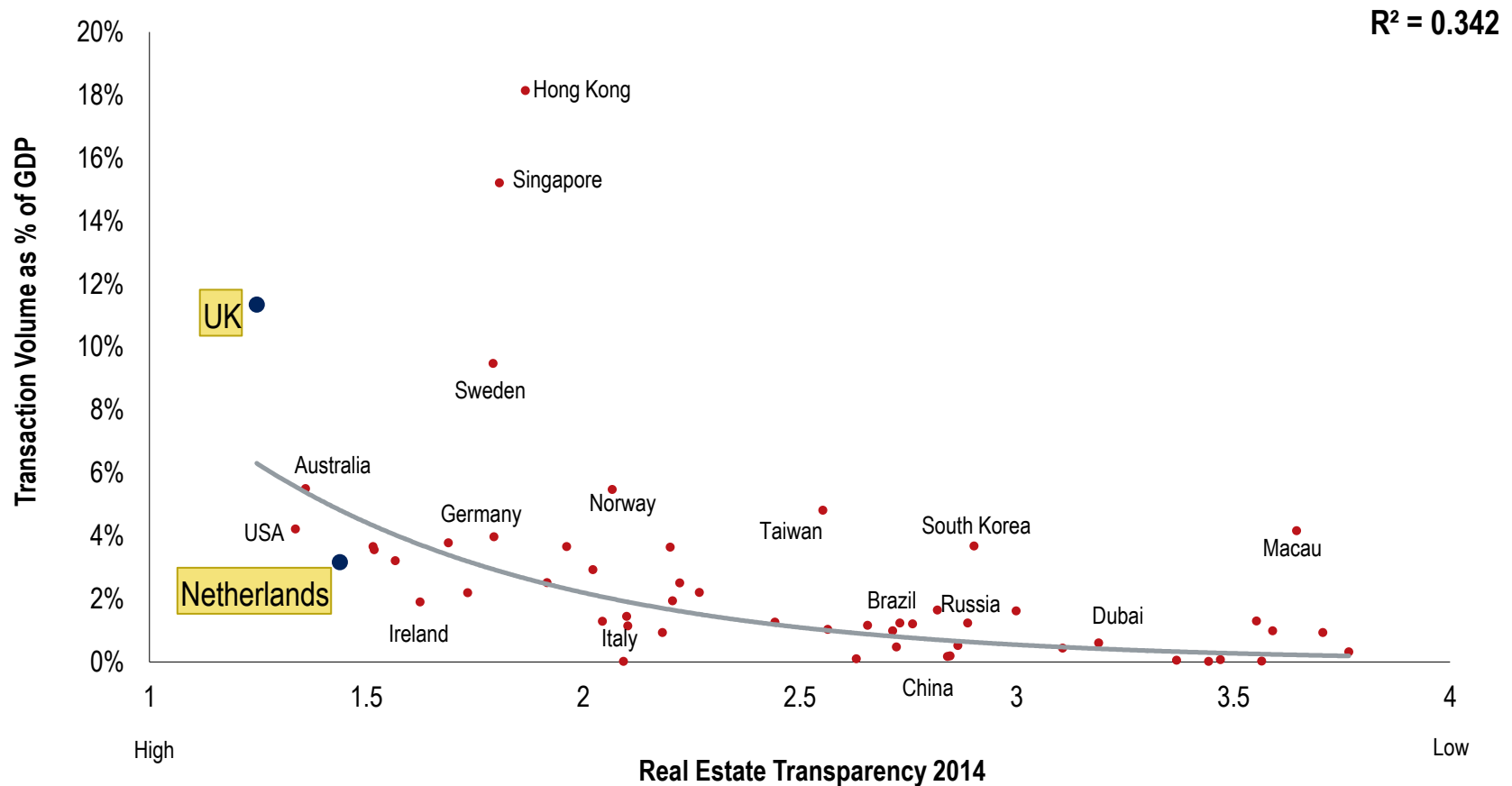
A multi-dimensional measure closely correlated with corruption



Source: JLL/LaSalle/Transparency International (2014)

Real Estate Transparency Index and Investment Volumes

Transparency Rises with Investment Activity



Source: JLL/LaSalle (2014)

The World's Most Transparent Countries, 2014

Both UK and NL have very high levels of transparency

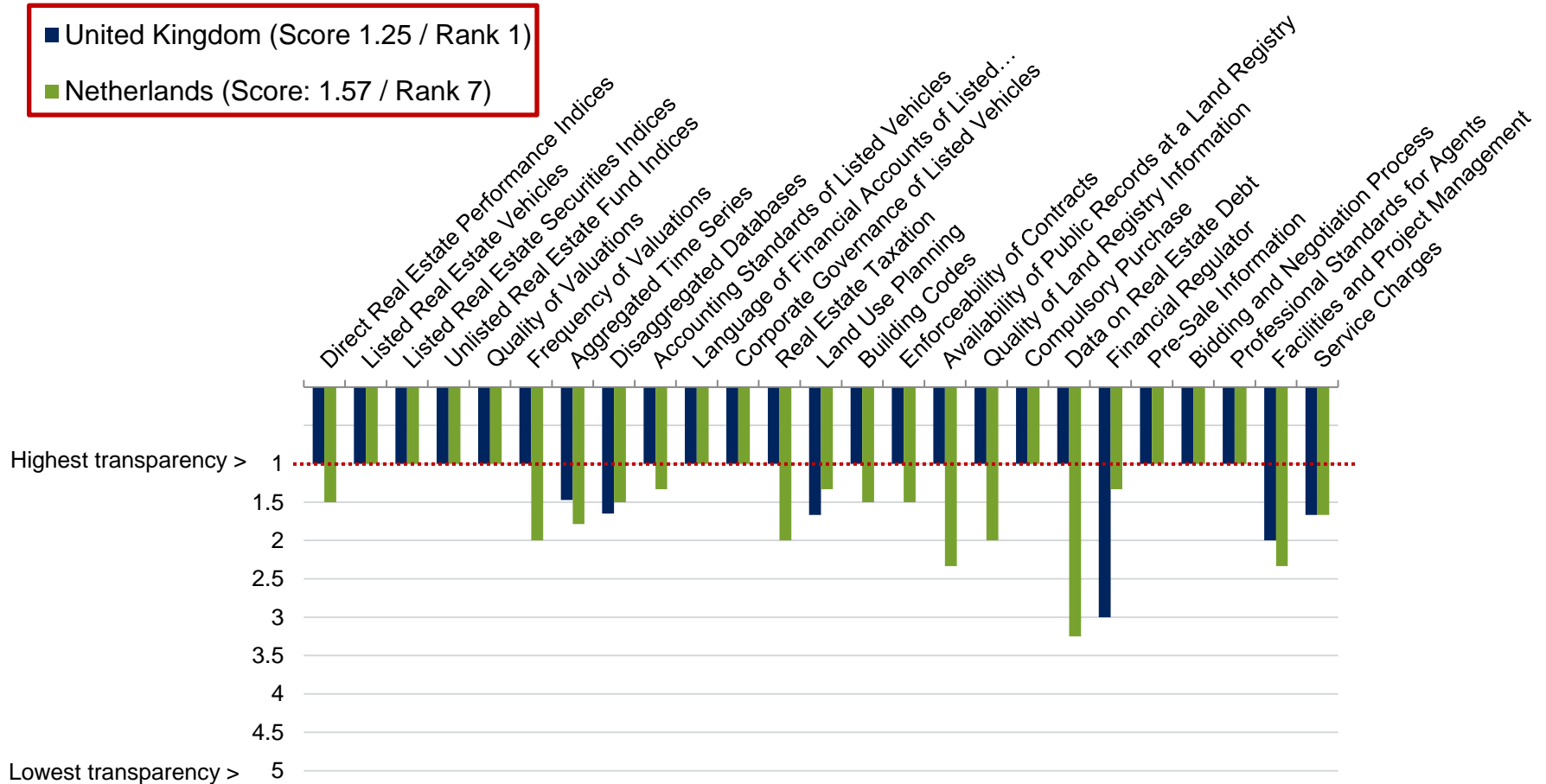
Category	2014 Composite Rank	Market	2014 Composite Score
Highly Transparent	1	United Kingdom	1.25
	2	United States	1.34
	3	Australia	1.36
	4	New Zealand	1.44
	5	France	1.52
	6	Canada	1.52
	7	Netherlands	1.57
	8	Ireland	1.62
	9	Finland	1.69
Transparent	10	Switzerland	1.73
	11	Sweden	1.79
	12	Germany	1.79
	13	Singapore	1.81
	14	Hong Kong	1.87

Source: JLL/LaSalle (2014)

Note: Scores: Highest = 1.25 / Lowest = 4.63. Ranks: Highest 1 / Lowest 102

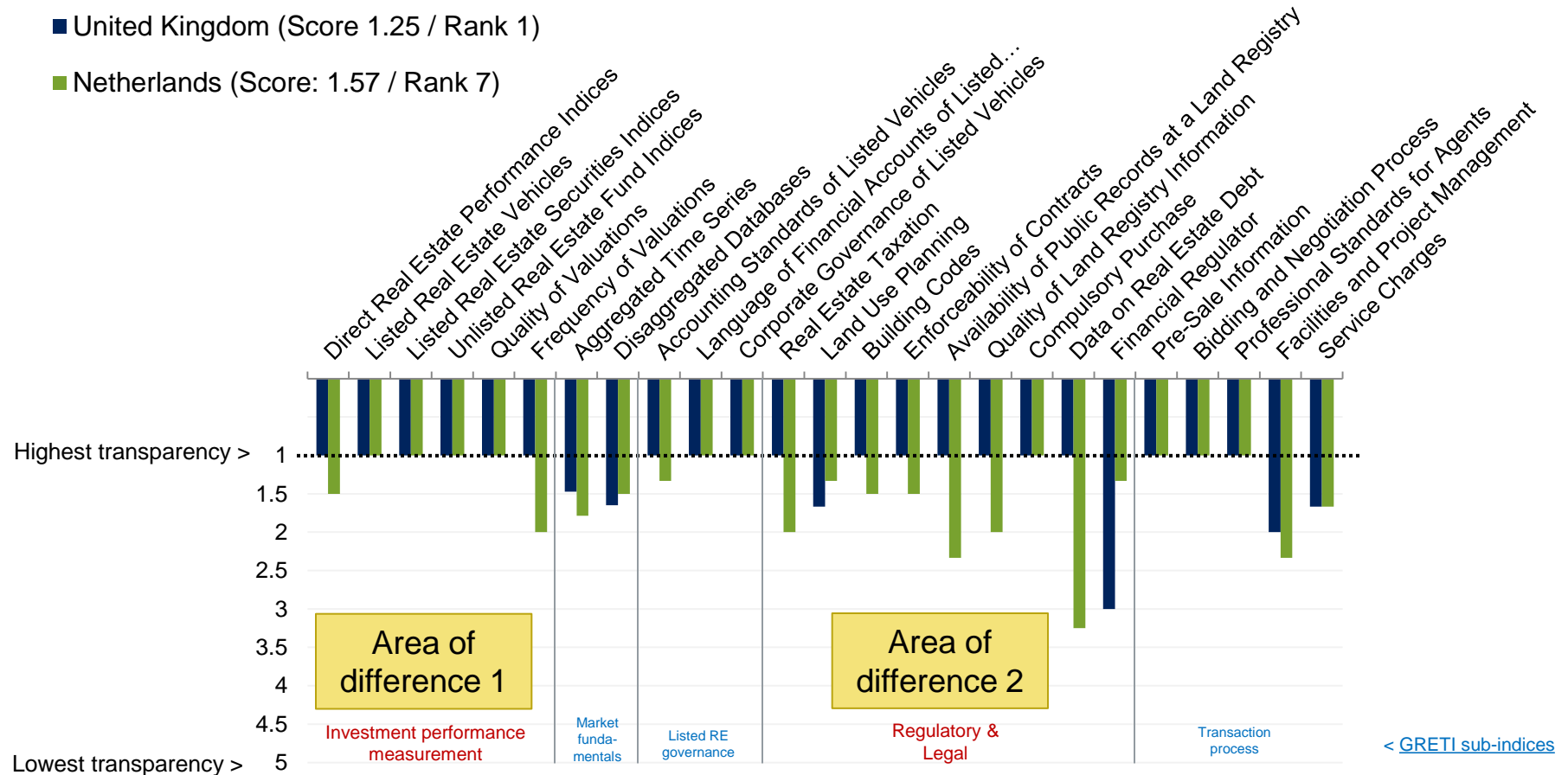
GRETI 2014: Comparison of UK and NL Scores

Both UK and NL have very high levels of transparency



GRETI 2014: Comparison of UK and NL Scores

Two areas where differences in scores are concentrated



Source: JLL/LaSalle (2014)

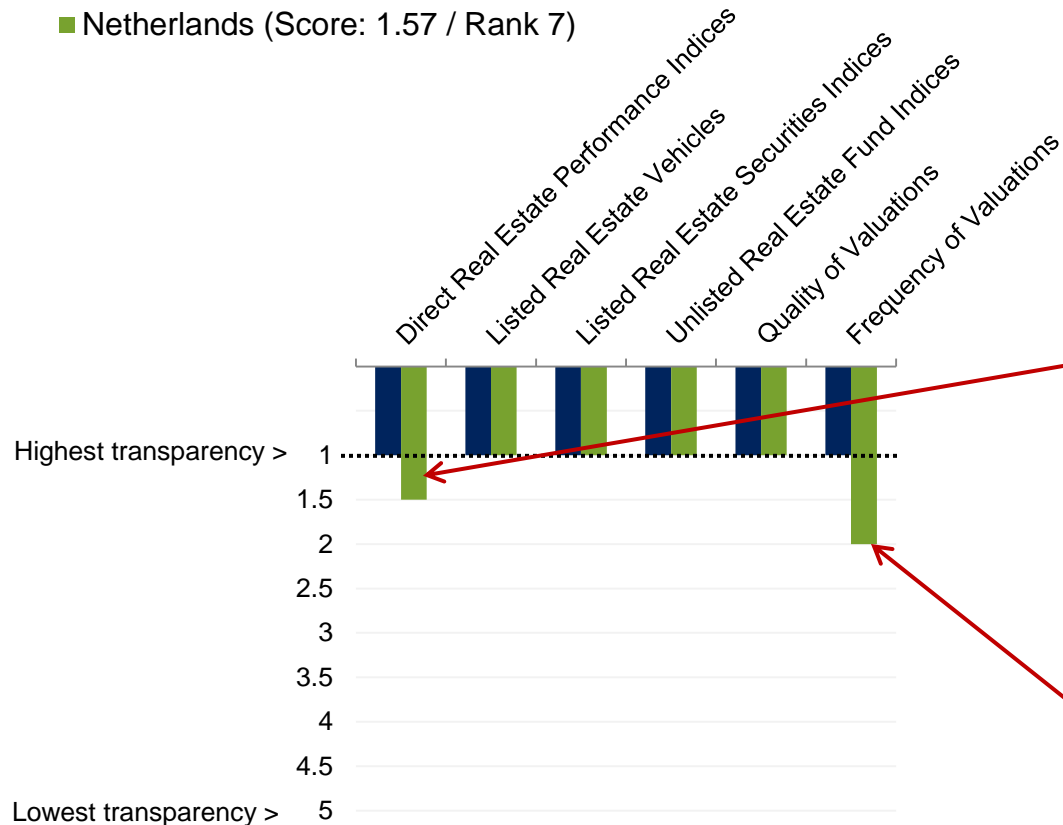
Note: Scores: Highest = 1.25 / Lowest = 4.63. Ranks: Highest 1 / Lowest 102

Area of difference 1: Investment performance measurement

Two areas where differences in scores are concentrated

■ United Kingdom (Score 1.25 / Rank 1)

■ Netherlands (Score: 1.57 / Rank 7)



Direct real estate performance indices:

- IPD performance index with good coverage and long history for both countries.
- NL index less used and trusted as *the* source of market performance.

Frequency of valuations:

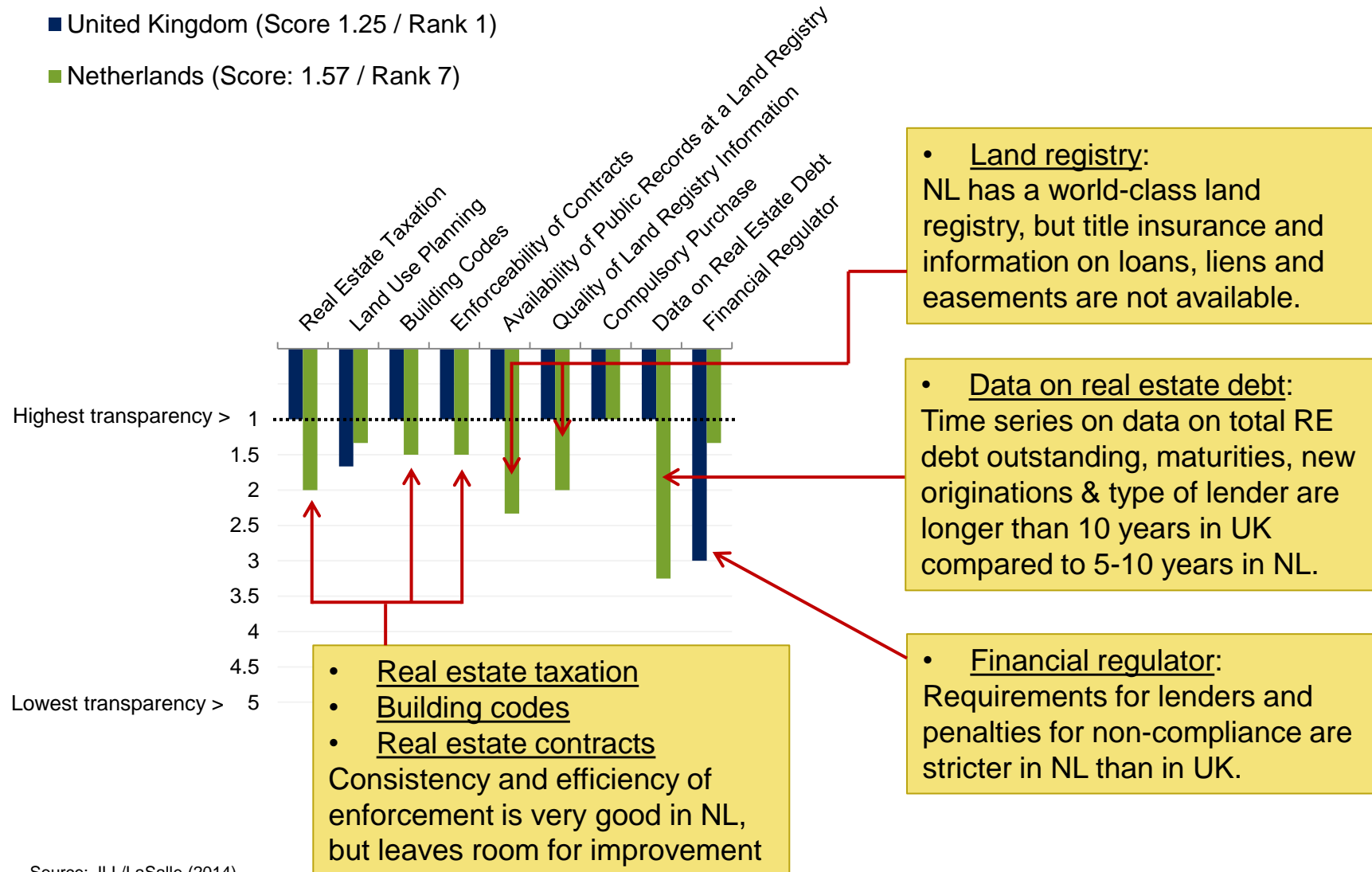
- Valuations in the UK are typically quarterly or monthly.
- Valuations in NL are typically conducted annually.

Area of difference 2: Regulatory & Legal

Two areas where differences in scores are concentrated

■ United Kingdom (Score 1.25 / Rank 1)

■ Netherlands (Score: 1.57 / Rank 7)



Source: JLL/LaSalle (2014)

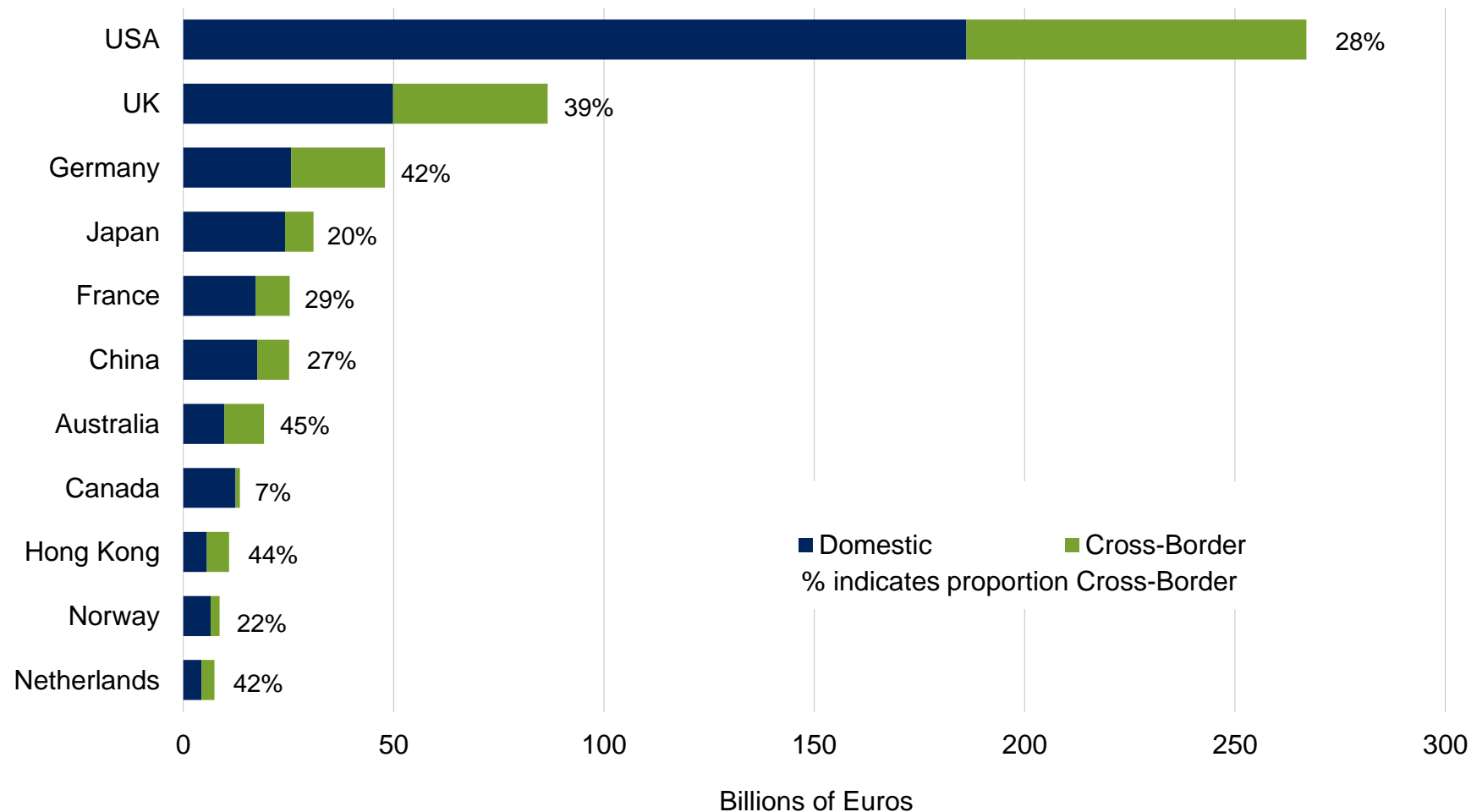
Explanations

Formal



Cross Border Investment in Global Real Estate Markets

Transaction volumes for 2015

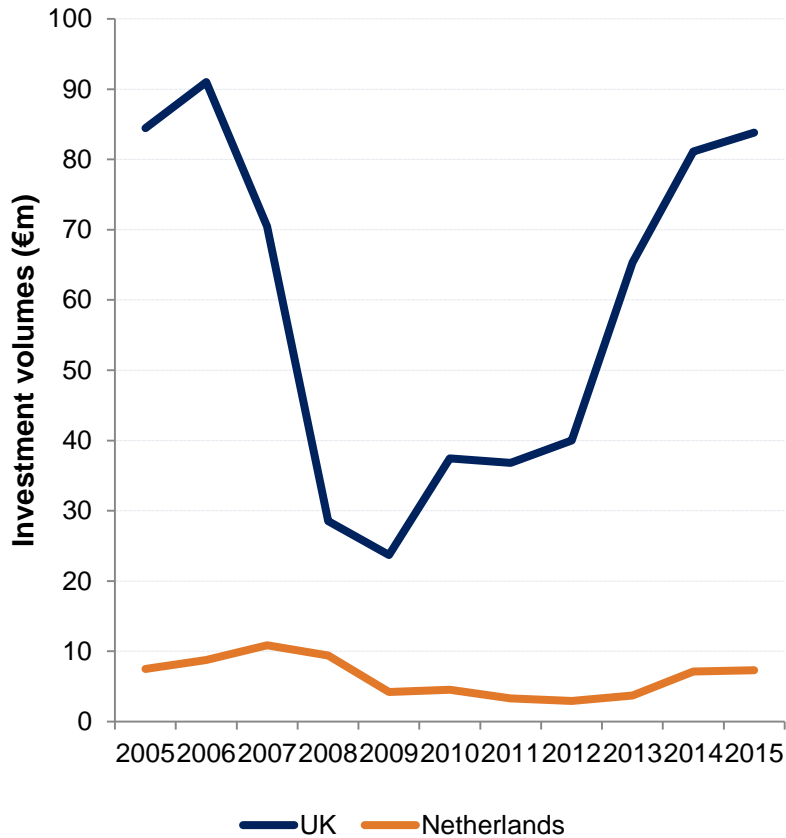


Source: JLL (Q4 2015)

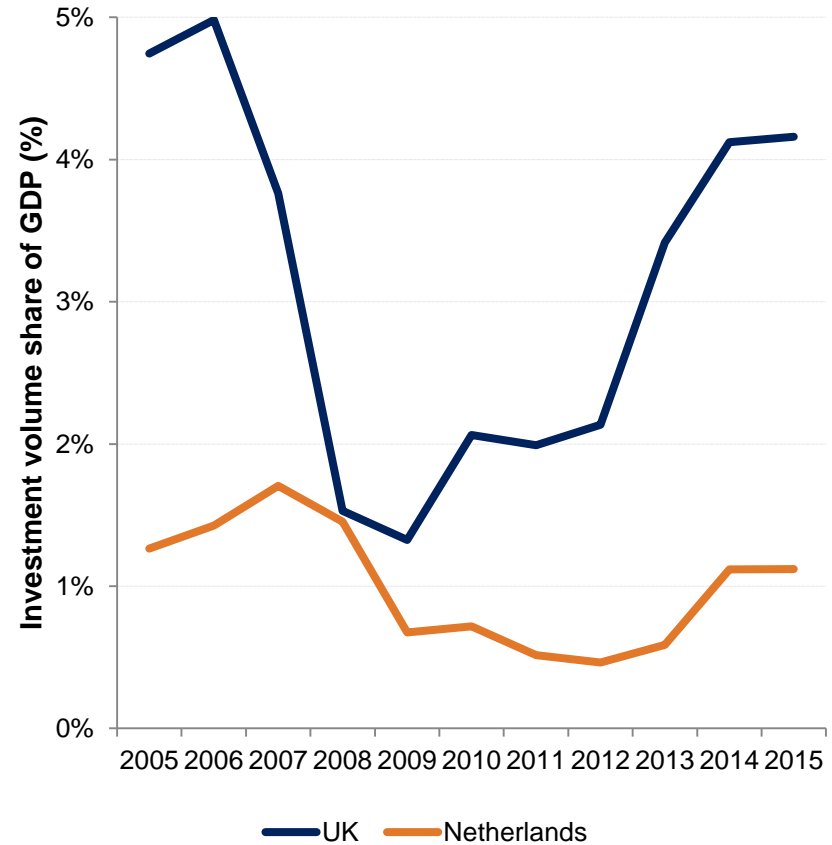
UK liquidity severely impacted in the downturn

Investment volumes in Netherlands more stable

Property Market Investment Volumes (€m)



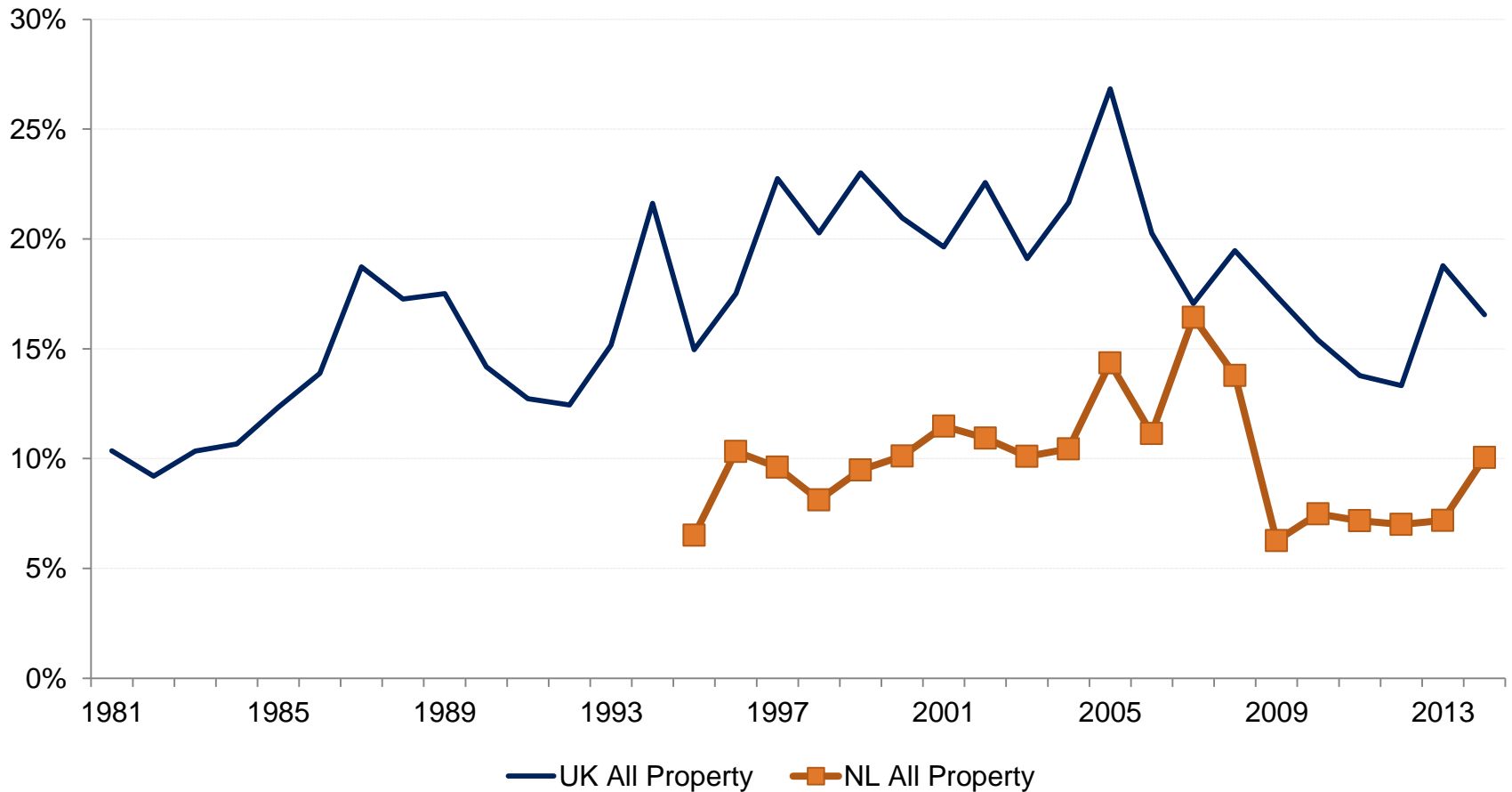
Property Market Investment Volumes as Proportion of GDP (%)



UK shows consistently higher levels market evidence

Transaction Volume (by value) within IPD/MSCI Portfolios

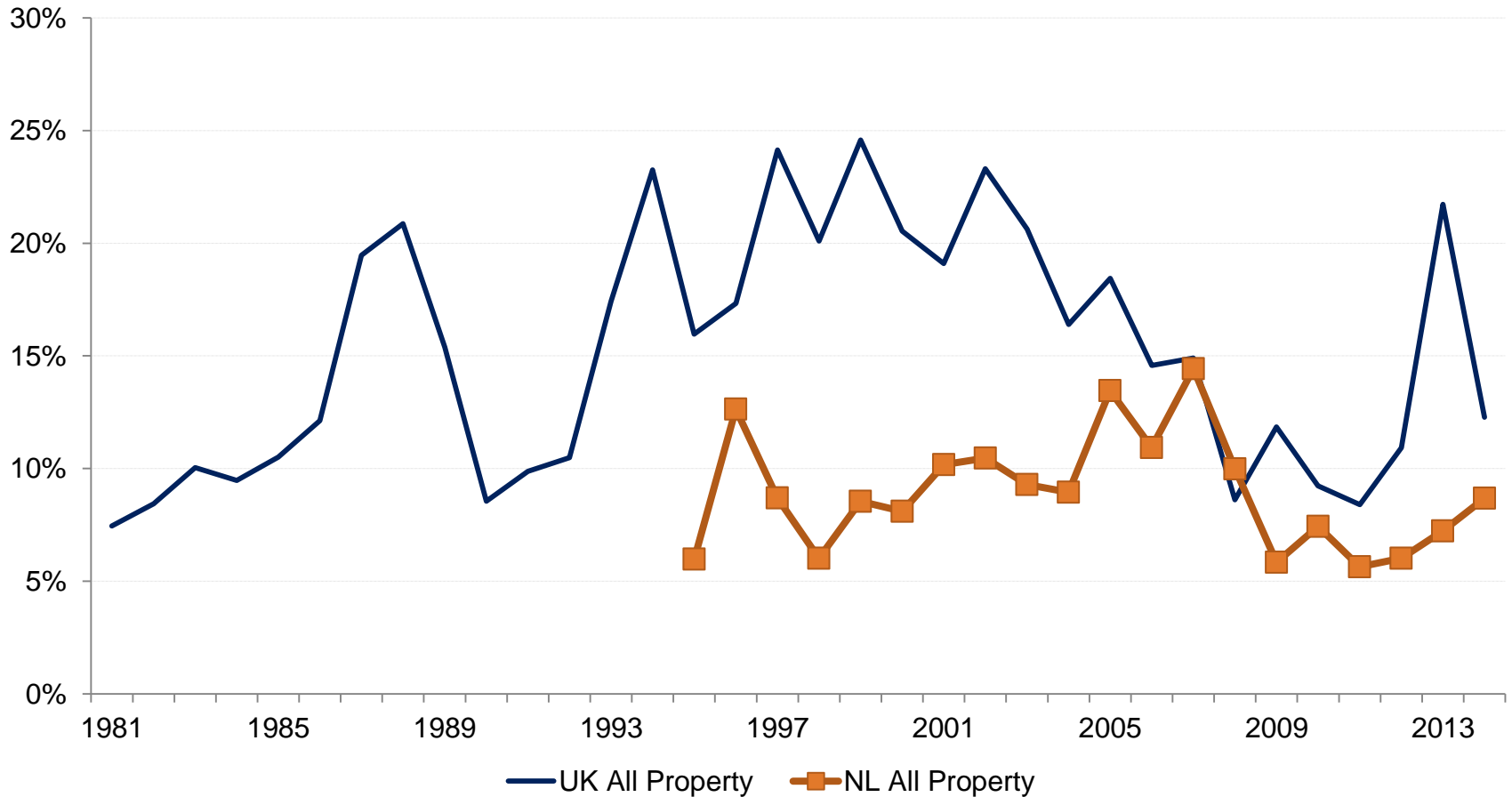
Turnover as % of Portfolio Value



UK shows consistently higher levels market evidence

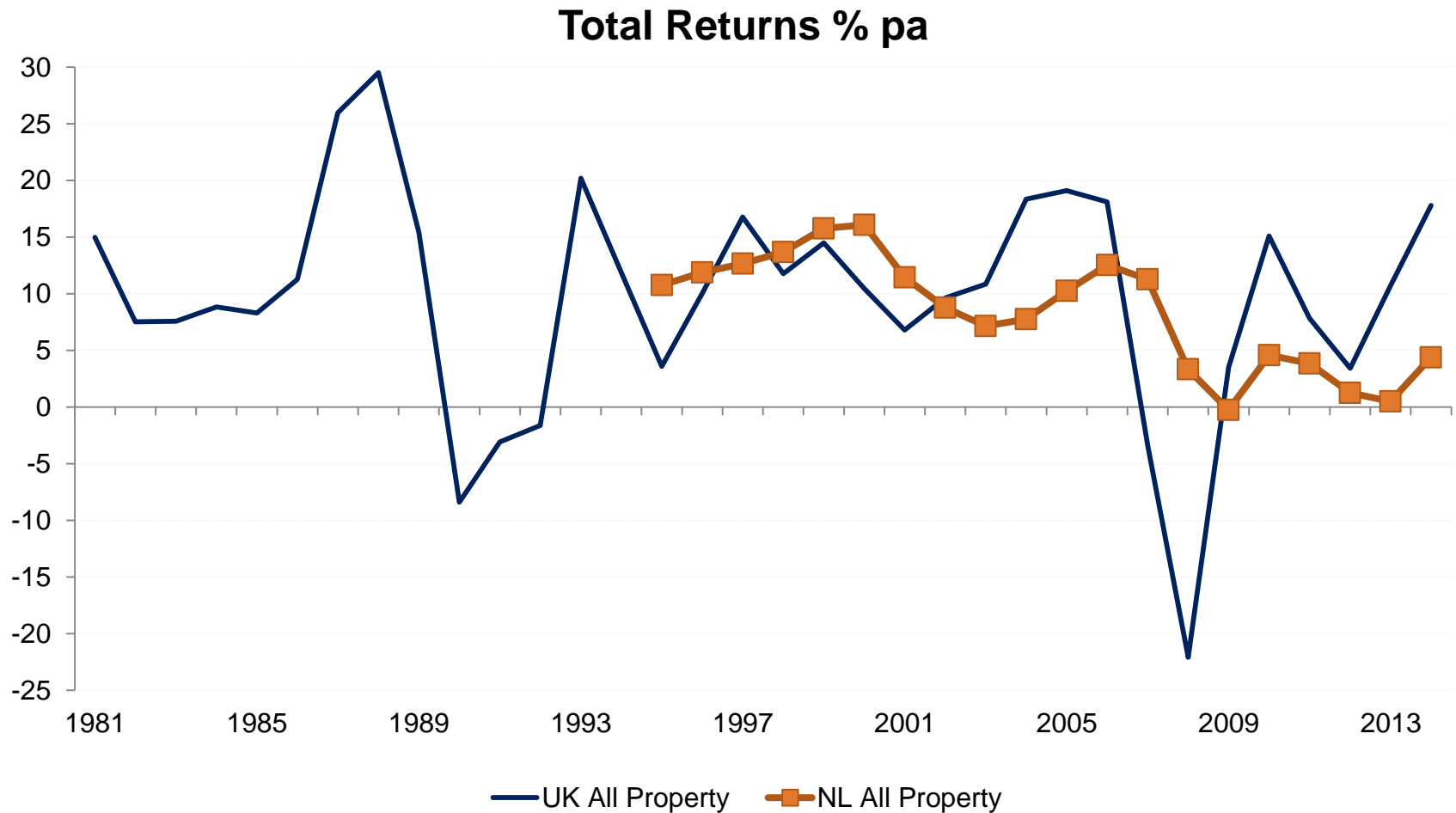
Transaction Volume (by numbers) within IPD/MSCI Portfolios

Number of Deals as % of Portfolio Assets



Two Cycles v One: UK history since 1981, NL from 1996

Also UK Monthly since 1986 & Quarterly since 2001 v 2008



Explanations

Informal



Basis of Valuation - Market Value

Clarifying some common misconceptions

What it is

International Valuation Standards definition of 'Market Value' & also RICS Red Book:

"the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion."

In practice: what a property would be expected to sell for at the valuation date with normal marketing

What it isn't

A 'Market Valuation' is not formally or necessarily):

1. An appraisal of worth
2. A long term / sustainable value
3. An economic analysis

Purpose for which Valuations/Appraisals are carried out

Motivations of owner in instruction

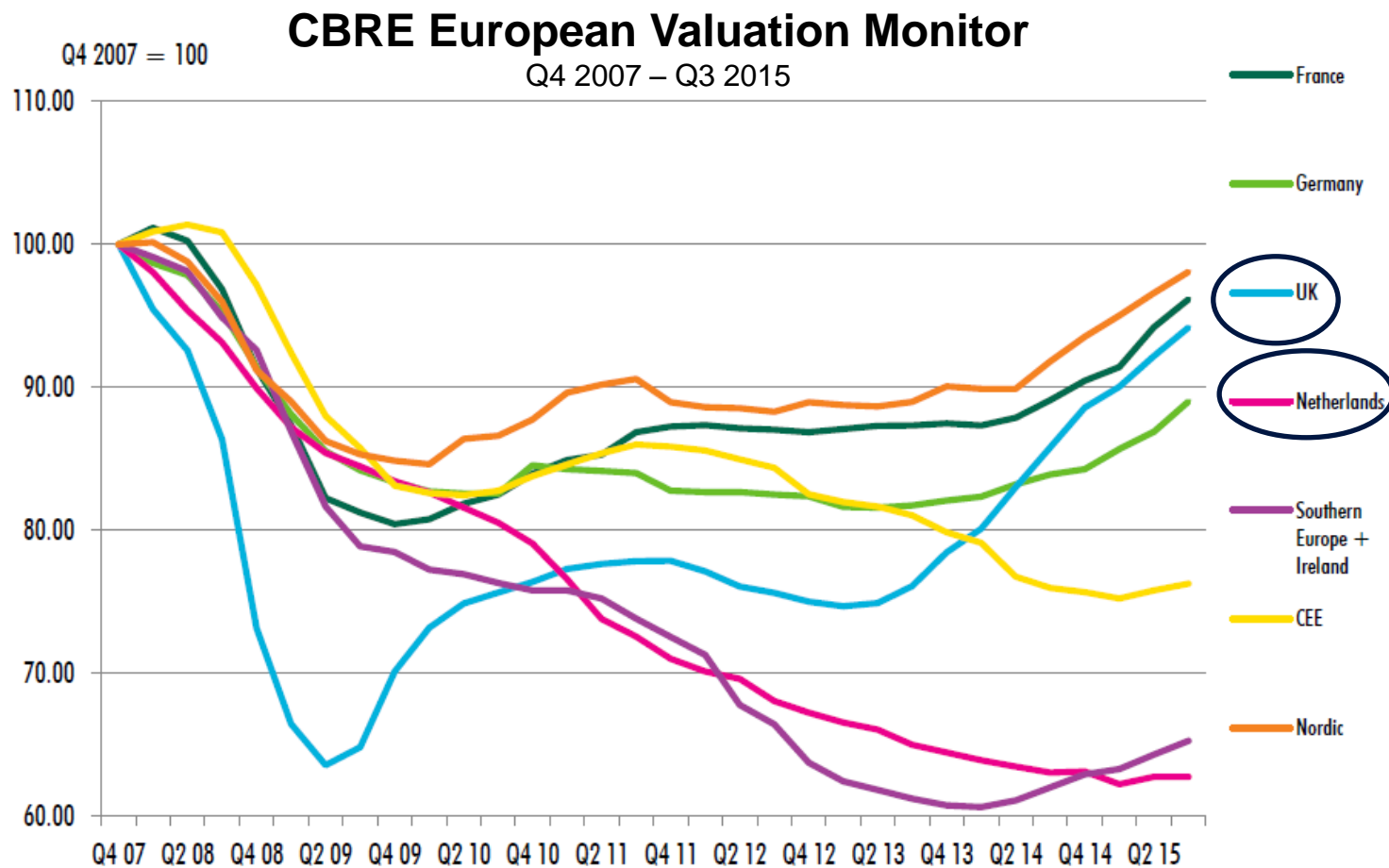
Some examples

Purpose	Preference of Owner for Outcome	Reason
Loan	High	Maximise loan amount
Unit Pricing	Correct	Fair price to buyers & sellers
Performance	High ?	Maximise performance fee
	Low?	Keep performance in reserve for future

But a valuation may be required and used for more than one purpose!

UK & NL: A Contrasting Pattern of Value Movements

Recovery of capital values has barely started in the Netherlands

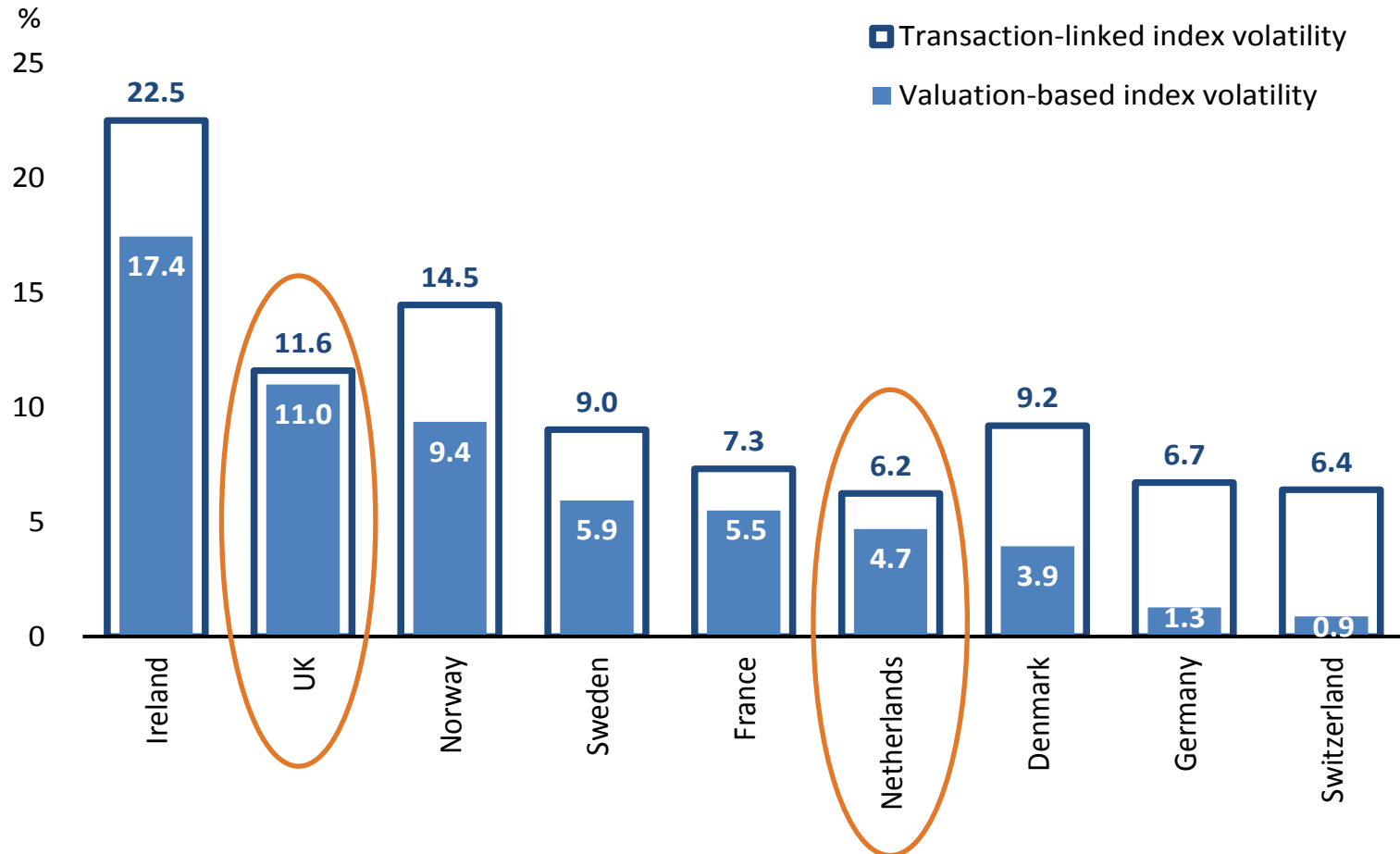


Limits of appraisal data for measuring market risk/volatility

Only in UK is volatility similar between two types of indices

Valuation and Transaction-based Volatility

10 Years to End 2013



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Conclusions / Topics for Discussion

- Market Transparency: Both NL & UK 'Highly Transparent' but latter slightly more transparent
 - Explanation: Greater Liquidity & longer data sets
- Approach to Valuations:
 - Output less sensitive to the market?
 - Chicken or Egg?
- Role of 'Big Data:'
 - Potential but 'No Panacea'

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Real Estate Risks

Risks of investing in real estate include and are not limited to declines in real estate values, defaults by mortgagors or other borrowers and tenants, increases in property taxes and operating expenses, overbuilding, fluctuations in rental income, changes in interest rates, possible lack of availability of mortgage funds or financing, extended vacancies of properties, changes in tax and regulatory requirements (including zoning laws and environmental restrictions), losses due to costs resulting from the cleanup of environmental problems, liability to third parties for damages resulting from environmental problems, and casualty or condemnation losses. In addition, the performance of the local economy in each of the regions in which the real estate owned by a portfolio company is located affects occupancy, market rental rates and expenses and, consequently, has an impact on the income from such properties and their underlying values. No investment strategy or risk management technique can guarantee return or eliminate risk in any market environment.

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