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Speaker 1: My name is Renee Vermont - Head of real estate at MSCI. Today we are celebrating the 40th anniversary of MSCI UK real estate. We're celebrating this anniversary by speaking with leading industry participants. And today I'm speaking with Paul Richards, head of the association of real estate funds in the UK. Paul thank you for joining us today. Can you tell us a little bit about your own history? Perhaps not 40 years. When did you start working? What was your first role? And can you describe the industry in that period?

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Speaker 2: Yes, I started in May 1988 when the economy was booming and, the marketing company I was at, over-traded, and it was actually a good time to be made redundant. So I remember walking down high hope and into a temping agency and getting a job at a firm of Chartered Surveyors, I didn't even know what a Chartered Surveyor was and they were starting off something called research team. And I think I got the job because my CV had the word research in the title. And that was one of the companies, which was a sponsor of what was at the time IPD, which was starting off what's now the MSCI, group of indices. And that's how I started. It was a couple of years after IPD started. I think I saw the original shoe box, I had the original index cards in, on which the index was founded, I learned from there, so I fell into real estate and I've just found that I've enjoyed it and I've enjoyed all the roles that I've played since.

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Speaker 1: And actually, you told me offline, that might even be still a folder on one of our servers referring to way certain Paul are, are involved with, IPD at the time. So, clearly, we go back a little bit, but a lot has happened right since then. So can you reflect on some of the biggest changes in real estate since you started working in the industry?

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Speaker 2: Yes. I think that the development of indices is integral to what's happened. So I remember at that time in the late eighties, early nineties, there was, a desire expressed to have real estate stand beside the other asset classes as an equal, which was the reason for wanting to develop an index. But at that time, computer databases were just being developed. But they weren't, there were, they were nascent. So when you wanted to, sell a property, you literally created a set of paper particulars, and you sent it around all of your mates at your fellow Chartered Surveyors, by courier. So there was no, there were no online databases, none of that existed. And I think that technological developments is probably the most important thing that's been happening over the last 30 years, because that's enabled, the development of indices it's enabled, better property management, it's enabled better cashflow management, it's enabled better portfolio management. And I think that as an investment, the way that people manage real estate investment has changed profoundly because now with all of your assets and cash

flows and leases and capital values on a database, you can model your portfolio model, alternative scenarios, integrated economic forecasts and manage your portfolio in a much more professional way. Whereas what you couldn't put all information together, that's much, much more difficult.

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Speaker 1: Thank you. And then, so have you been, have you seen a change in what broader stakeholders, basically society is expecting from real estate as an investment class, or the real estate industry in a wider sense?

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Speaker 2: Yes, I think so. I mean, I think this is all, this also goes across all asset classes. So I think, in the last decade, especially, investors and the public and patient savers are expecting to see the assets in which they invest, take some form of social responsibility. And I think there was a sea change a couple of years ago when I was working as an investment consultant, when a client paid us to assess the social impact of an investment fund independently of the potential investment performance. And I thought, well, if somebody is actually putting money on the table to do that, that's important to them. And I think it's particularly important in property because we have obviously an impact on people's pensions because of the return that we produce. We have an impact on global warming because a lot of the carbon emissions which are produced are from property. But we're also the world that people walk through and the world they live in, in the world they work in. So I think we have a profound effect on the way that people feel because of the built environment that we create. And I think that's certainly becoming much more high up investors agenda. It's much more of the agenda of government and regulates,reporting requirements and trade associations as well.

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Speaker 1: That's interesting. Thank you. And so then, especially to the industry associations, they obviously played an important role over the past 40 years. Do you see their role changing or roughly staying the same? What's your view about development of the industry associations?

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Speaker 2: I think they they're going to become more important. I mean, I would say that because I I'm the managing director of one, but, having been in this role for just about a year now, I think that because of the societal changes I've been talking about and the importance of real estate to blinds financial lives to climate change and ESG issues. And also to just the environment that people walk through, I think it will be increasing pressure on us to do things which don't just produce a financial return, but are for the good of society. And I can see pressure coming from reporting authorities from regulators and from governments to address these issues. And these issues go across ESG, diversity and inclusion, all sorts of reporting requirements around sustainability. So I think

trade associations because they, they, they work across the industry rather than an a firm level. I think they're crucial in representing the industry to government and vice versa. So I think they become more important and I can see a degree of consolidation happening as well because, I think it will just be required.

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Speaker 1: One of the roles of benchmarks and indexes, has been to provide transparency around performance and risk of investments in real estate. How would you see that in relationship with trust of the investors that they're getting essentially the exposure that they are looking for?

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Speaker 2: I think it's absolutely crucial. And I think it's had two effects, if I look back over the decades, one is that in terms of portfolio construction decisions, it can stand alongside the footsie, all the standard and pores in terms of constructing a portfolio and looking at risk and return. So it's enabled property to play a fuller place in a multi-asset portfolio. And I think the second thing is that it does give confidence to investors that what they're being told, they're getting, they are actually getting, because it's, the information is provided by a third party who is not the fund manager and it's audited. And I think it's also going to an interesting development as a portfolio manager because, I think the was a decade or so where people were following the index. Which is natural to do if your target is well performing, actually you hope to benchmark. And I've noticed in the last decade has been a move away from that, towards much longer term performance from property and not churning the portfolio so much because obviously property has got fairly high transaction costs, but I don't think we would've gotten to that point if we hadn't had the benchmark and the index in place. And if we didn't have a benchmark, we would have to invent one I think, but those benefits of reporting transparency, I think are absolutely still crucial to attracting money into the sector.

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Speaker 1: Thank you. And then, let's switch gears to, you know, trying to look into the future. So if you had to have a crystal ball out, how would you expect the trends that we've seen around data, around ESG, around real estate as an asset class? How would you characterise sort of the next five years, obviously we've seen more data become available, a drive for more transparency. How would you see that play out in the next five years?

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Speaker 2: I suppose the simple answer is, I don't know, but I know it will be different, but I can say, I think I could talk about some of the things which, which are going to affect what happens. So I think, the availability of big databases is going to continue. I think one important move is the move from DB to DC and the responsibility, for returns being on individual savers, as distinct from their pension provider. And I can imagine a scenario in 10

years time where you've got a pension saver wanting to look at their portfolio on their smartphone. They see a piece of news about a high street trader, which may be experiencing difficulties. They want to know, does their property fund have exposure to that. And they will expect to look on their smartphone and see what the exposure is, and they want that data to be up to date yesterday, not a month ago.

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So I think that's one end of it. I think at the other end of the spectrum, the portfolio management industry is going to become more sophisticated where you have these big data sets of not just property performance, but economic performance at a really granular level demographics and so on. And using AI to integrate those into performance forecast and portfolio management techniques. So I think from both ends both from the consumer end and from the manager end, that's going to make profound differences to the way that the property is managed and the expectations of our customers. Two sets of customers. One is talents to one is our investors.

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Paul, thank you very much for speaking to us today. That was very insightful and I'm sure we'll be speaking soon. Thank you.