

Rockspring Property Investment Managers

Recently, **Steve Felix**, publisher of *The Institutional Real Estate Letter—Europe*, spoke with **Robert Gilchrist**, CEO of Rockspring Property Investment Managers. The following is an excerpt of that conversation.

Felix: *How long has Rockspring been investing in Europe?*

Gilchrist: Almost 25 years. In the early 1980s, we took over management of the PanEuropean Property Unit Trust, one of Europe's oldest open-ended property funds, giving us one of the longest unbroken track records of investing across Europe. In 1991 we also set up one of the first closed-end limited partnerships, called TransEuropean, for international investors wishing to access European markets. We're now investing the fourth of these; so we've seen and participated in many and varied market conditions — not just the recent boom years.

Felix: *So what's the size of Rockspring today?*

Gilchrist: Today, we have more than €6 billion gross funds under management, with an ever diversifying client base. While our primary client base comprises institutional investors from Europe and the U.S., we are making strong in-roads into Australasia. We believe implicitly in the need for on-ground representation in Europe and have been building our local office network. We now have offices in Spain, France, Belgium, Germany, Finland and Hungary with more in the pipeline, and a team of just under 90.

Felix: *Since Rockspring began almost 25 years ago, there has been a trend toward consolidation among money managers, with the idea that bigger is better. Why have you chosen to remain independent?*

Gilchrist: We love being independent, having been owned before, and I think many of our clients also prefer it this way. And, size-wise, we're not doing too badly and are more than holding our own against many larger financial institutions. Ownership of the business and ownership within our fund products is highly motivating for us all. More than 90 percent of our employees own shares in Rockspring and many participate in the promotes and performance fees of client accounts. It is easy to argue and we really believe that this business and its folk are more aligned to client interests than many of those employed by the financial behemoths.

Felix: *You mentioned that Rockspring has been investing in Europe since the 1980s, but how long have the current senior executives been with the firm?*

Gilchrist: One of Rockspring's key strengths is the length of time that our senior people have worked together. Of our 10 partners, seven have worked together for more than 10 years. Our chairman, Richard Plummer, our finance director, Ian Baker, and I have been together for more than 20 years. This long-term collaboration through good markets, indifferent markets and bad markets is a major investment

ROBERT GILCHRIST



Robert Gilchrist is CEO and one of the founding shareholders of Rockspring Property Investment Managers. Gilchrist joined the company in 1987 and since that time has played a leading role in the growth of the company into one of the

U.K.'s leading Europe-wide property investment managers. His particular expertise is the creation and launch of limited partnerships (Rockspring now has eight such programmes), and overseeing the fulfilment of Europe-wide investment strategies by client funds.

advantage. Clearly no cycle is the same, nor ever will be, but there are nevertheless going to be similarities, patterns, signals. And it's really quite important to be able to at least recognize some of the signals that may indicate the likely evolution and outcome, so one can be strategically proactive rather than reactive.

Felix: *What is Rockspring's investment style?*

Gilchrist: We describe our style as Income and Growth. We typically aim to buy properties that have a broadly higher-than-average income yield, which we can grow further through active management. That's the key: growing income, rather than just taking a gamble on capital growth through market movement. Clearly if we achieve what we've set out to do, we will get capital growth as well, because capital growth follows income growth.

Felix: *Do you see yourselves changing your strategy going forward?*

Gilchrist: No, we plan to "stick to our knitting." Europe is a large and diverse place — the largest real estate market in the world. The European Union, and those countries that aspire to be in the European Union, is our patch. Today we are very involved in 13 or 14 countries, but there are still a number of countries that we're not involved in, and I feel that as those markets evolve they will give us plenty to keep ourselves busy.

Felix: *Asia seems to be the hot investment focus right now. Is that reducing allocations to Europe?*

Gilchrist: For most European pension funds, their own country, and then cross-border European investing, will always be the first port of call. This means that as a market, Europe will continue to enjoy investment from some of the largest organizations and companies in the world, and this provides quite significant stability. For U.S., Asian and other

investors, obviously Europe is just another choice, and clearly there is competition from other parts of the globe. But that said, there are very few investors who decide to go international that would not expect to have at least an element of their holdings within European real estate. Europe may not sound as sexy and dynamic as Asia or South America right now, but it has a long and established tradition of making money for investors who buy sensibly and at the right time. Two or three years ago, we increasingly downplayed the amount of time and investment that we committed to the U.K., because we felt that the U.K. market was getting expensive. Right now, the U.K. is one of our top markets in Europe. So, what previously was seen as overdone, overplayed and overworked can suddenly become underplayed and underworked, and of interest again. The point is there are always opportunities in a region as diverse as Europe, and I think sophisticated investors recognise this.

Felix: *Are there other particular areas where you see value over the next six to 12 months?*

Gilchrist: It is becoming harder to see value in the true sense of the word, with the challenging yields and prices at current levels in previously popular markets. But as mentioned, Europe is a huge place, and there are many places to invest other than London, Paris, Madrid or Stockholm. Markets such as Portugal, Benelux, Greece and the Balkans — which are somewhat less trampled and have been less spoiled by excess capital inflows or are a little bit immature — still present interesting investment opportunities.

Felix: *Do you focus on specific property types?*

Gilchrist: We typically favour retail over offices, and to some extent over industrial, although the latter can be quite interesting in certain markets. We see retail as a sector that continues an interesting evolutionary march within Europe, providing a lot of varying opportunities. On the other hand, offices tend to be highly cyclical and highly correlated to the development and business cycle. They simply are less exciting, more risky and more costly to own and manage than the other sectors.

Felix: *With cap rate compression gone for now, asset management is taking center stage. What are Rockspring's asset management capabilities?*

Gilchrist: Asset management has always been an essential part of our activities. Clearly going forward, those businesses that are able to asset and property manage successfully will be those businesses that outperform. Our on-the-ground local offices are great for finding deals, but they're equally good for ensuring that local properties are properly managed.

Felix: *How do your investors view you?*

Gilchrist: I think they see us as entrepreneurial, while at the same time an experienced and "safe pair of hands" in Europe. We are people who understand the markets in depth and buy for reasons other than mere asset gathering. Having been around for a long time, and having been involved in a number of cycles, we bring a high-level of insight to the table. I also think they see us as innovative and outside-the-box thinkers. We were one of the first property fund managers to invest across Europe, one of the first to develop the limited partnership structure for this type

of investing, and we are often one of the first into various sectors and locations. For example, when we launched our German Box Fund in 2005, many people thought we were completely bonkers investing in retail in Germany. But that has proved to be a very successful strategy for our clients.

Felix: *What are your other strengths?*

Gilchrist: We work very hard at ensuring fully transparent reporting. I don't just mean a nice set of glossy accounts at the end of the year, but personal relationships with senior-level staff within the business that investors can speak to and meet with whenever they want. We would rather provide information overload and provide it well than to be accused of not keeping our investors properly informed.

Felix: *Has the current debt climate hindered your investments?*

Gilchrist: In many ways we see the future as a reversion to normality, and the last few years as exceptional and unsustainable. So for us it's pretty much business as usual. We're opening new offices, we're launching new funds and raising money. Because our funds have more often than not been tactical with relatively low levels of debt, the types of returns we target and the types of properties that we invest in continue to be available to us. In fact, with the debt investors gone, it's much easier now to find individual properties that fit our portfolios' investment strategies and targets and buy these at the right price as an equity investor than it has been in quite some time. Therefore, our business continues to develop products, our investors continue to support the fundraisings and our investments continue to perform. ❖

CORPORATE OVERVIEW

Headquartered in London with an expanding network of continental European offices, Rockspring Property Investment Managers is an established leader in European property investment. The 100 percent owner-managed firm has more than €6.2 billion* in funds under management in 13 European countries. Since 1984, senior managers at Rockspring have operated as professional investment fiduciaries specializing in the acquisition and management of commercial property throughout the United Kingdom and continental Europe on behalf of major institutional clients either directly, for single-client accounts, or through the firm's series of tax transparent commingled investment funds. Rockspring's Europe-wide core-plus/value-added investment style has resulted in nearly 100 percent growth of funds under management since the firm went through a management buyout in July 2004.

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