Rockspring Property Investment Managers LLP

*Recently, **Sheila Hopkins,** managing director – Europe and infrastructure with Institutional Real Estate, Inc., spoke with **Robert Gilchrist,** CEO of Rockspring Property Investment Managers. The following is an excerpt of that conversation.*

Robert Gilchrist is CEO of Rockspring Property Investment Managers. He has been with Rockspring for more than 25 years and has been active in the European property markets since 1983. He has played a leading role in growing Rockspring into one of the United Kingdom's leading Europe-wide property investment managers. He was appointed a managing director in 1998 and chief executive in 2004.

Rockspring has been around for 30 years. What have been the most significant changes in the business over the years?

It's hard to believe that there was no true real estate fund management industry in existence when we started 30 years ago, certainly not of the form and nature that we have today. Rockspring was there at the beginning and has been at the leading edge of the growth of the industry in Europe from its early beginnings to the present day. So, without a shadow of doubt, the change has been about growing scale, professionalism and globalization.

Does that long history give you a different view of cycles, such as the crash of a few years ago?

One of the key lessons learned over the past 30 years is that markets don't and can't always go up. And however unpleasant falling markets may be, at some point they will rise again — always remember that, to keep things in perspective. I have often found the viewpoint of many on the recent crisis to be somewhat curious in real estate terms — undoubtedly it has been an extremely challenging time, but just how bad was it when compared with the property collapse in the early 1990s? Those were truly torrid times on the back of the massive oversupply that was part of the recession that emerged in the 1990s. It's also interesting when people dismiss the concept of meaningful rental growth cycles, or fear the idea of property yields below bond yields. We will experience all of this once more, sometime in the future.

I've heard it said, "It always looks like the worst crash when you are in the middle of it."

So true! Everyone loves making money, and of course they hate losing money. But the "feel bad" of recession and depressed markets ultimately outweighs the feel good of "boom times." And during those times arises the absolute and total importance of transparency and communication with investors. This is when true partnership between manager and client is most important.

What differentiates Rockspring from its peers today?

Perhaps the key differentiation is that we are one of the few independent, owner-managed businesses of meaningful scale in Europe. This gives us the opportunity to align ourselves strongly with our partner clients. Ultimately, a business such as ours can only thrive if our investors thrive, and that is our strongest motivation. Having operated for 30 years, there is an unusual amount of experience here. And, throughout our journey, all we have done is European real estate. We have not been distracted by other parts of the world, or other asset classes. Therefore, the skill base and the experience base are entirely focused on European real estate. We also own our own network of offices across Europe as opposed to merely having associations or partnerships with third-party businesses. Not many of our competitors offer this.

How has your role evolved? I know there have been some management changes at Rockspring. What are you doing now that you didn't do before?

Any management changes have been solely part of the natural growth and evolution of a business that has been active for as long as we have. We have deepened and strengthened senior management with the appointment of Edmund Craston, as Managing Director, to help run the corporate side of our business and to provide further assistance and cover on the basis of Richard Plummer moving to non-executive chairman. The important point is that we are a partnership, and ownership is quite well spread within that partnership. We have worked together as a partnership since the MBO in 2004, and therefore, to be honest, it is business as usual today. As the business has grown (staffing is now three times the headcount we had at our MBO), we have obviously enhanced the roles and responsibilities of many individuals within the partnership and at senior level.

What is your view of the current market? What is going on in Europe?

The euro crisis and indeed Europe's response to the global financial crisis has made it ultimately more dependent on the economic performance of the rest of the world, rather than being a driver of global growth. However what matters is that economic recovery and growth is expected in Europe. And it's the growing belief in stabilization and better economic times that is fueling this recent change in sentiment. While there are clearly still issues, such as the euro and unemployment in southern Europe, I believe that the worst of the crisis is behind us. With a growing self-belief in Europe combining with global capital flows, improving demand is continuing to pressurize core pricing and indeed activity and pricing up the risk curve. If this can be sustained and combine with the rental growth that I envisage in many markets, the outlook is very positive.

What will be the main value drivers in 2014?

Improving investor confidence is key, and on the back of a stabilizing European economy this is now much more apparent. There has been a marked change since the summer. Add to local demand, the continuing growth of global demand, so the capital markets can be seen to be starting the year in good health. There remains dislocation in pricing between core and noncore assets, and I see the capital markets playing their part in 2014 in assisting the recovery of noncore asset pricing. But in my opinion, the future will be much more about value creation and rental growth, rather than yield compression and financial jiggery pokery. There's no doubt that "buying cheap" strategies can still prevail, but the winners in 2014 and beyond will be those that can and will roll up their sleeves to create value in markets with declining vacancy. We think that we are in an occupier cycle in Europe and that there will once more be positive absorption in some cities. This will create real rental growth opportunities, and asset management opportunities. We see traditional asset management playing an important part. We also think the markets have been starved of capital for asset improvement over the past number of years, so restoring real estate from noncore to core is a key theme and is one that should be highly remunerative when properly executed.

Will U.S. investors be looking toward Europe?

Undoubtedly. They already are, and the signs are that they will step up further next year. What is interesting is that the language spoken by U.S. investors seems to be evolving. Unquestionably some will remain focused solely on opportunity funds and higher return reward for "going overseas." But others are talking my kind of language. Diversification and risk spread and strategies that focus on attractive levels of income and total return without taking undue risk or using excessive quantities of debt. We have built our business very much in this space, and while during the 2000s our lower risk strategies failed to interest that many U.S. investors, this is very different today.

What is the key element of this recovery?

The unique situation today is that the supply/demand position in many places is so very different from previous recessions. In the past, serious oversupply, particularly of offices, has coincided with recessions. Today, as we emerge from the downturn, the supply/demand balance is much more controlled, particularly in the case of grade A space. This is beginning to drive rents, and we see the next three to five years being less about yield compression and more about rental growth in undersupplied markets.

Where is this demand coming from?

Some of the economic forecasts for Europe are probably understating the continent's growth potential. I believe the U.K. and Germany will probably enjoy growth rates not that dissimilar from projected growth in the United States. This will be an important driver of demand. This combined with the relative affordability of dwindling supplies of grade A accommodation across the sectors. Then there are local factors such as rapid growth of technology demand in London, the focusing of retail growth and expansion on the dominant high street and shopping centers and the consequence of e-retailing on distribution. That's quite a bit of activity so early in a cycle.

Why should an investor choose to invest with Rockspring?

We have been around for a long time. We offer a committed, personal service. We have a long-established performance track record in investing across Europe. We have been through a number of cycles, and that experience and the ability to show performance going back 10, 15, 20 years is really important. We have a highly experienced team, and in particular a highly experienced asset management team utilizing locals, and that is really important. If people are investing in Europe, they need to know that they are investing with and alongside locals, and that is what Rockspring has always provided. Our business offers true alignment with our investor base. We have been looking after global investors for 30 years, so we have a long track record of dealing with American, European, Asian and Australian investors, and dealing with their own specific needs, requirements and reporting terms on a customized basis. We are entrepreneurial, but we are also steady — and I think this is what investors want today. ❖

CORPORATE OVERVIEW

Rockspring Property Investment Managers LLP is a professional investment fiduciary 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 a series of tax-efficient, commingled investment funds. Founded in 1984, Rockspring manages $8.3 billion (as of September 2013) of property assets located in 15 European countries on behalf of a highly diverse domestic and international investor base. Rockspring is headquartered in London and has a network of offices in Amsterdam, Berlin, Brussels, Budapest, Madrid and Paris.

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