

00;00;03;29 - 00;00;24;26

HOST

Welcome to the People Property Place podcast with me, your host, Matthew Watts, Founder and Managing Director of Rockbourne. This is a podcast where I share the stories, views, opinions and career journeys of the movers, shakers, innovators and leaders in the real estate industry.

00;00;24;28 - 00;00;50;01

HOST

Welcome to the People Property Place podcast. This week I sit down with David Bateman, former CEO and group executive at HPE. With over 20 years of real estate experience, David shares his journey from early career moves to leading investment strategies at primary healthcare properties. We discuss his role in expanding PHP into Ireland. Trends in the real estate M&A world and the increasing influence of private equity.

00;00;50;04 - 00;01;07;27

HOST

David also touches on team building, mentorship and sustainability in the sector. And of course, he answers our signature question how would he invest 500 million pounds worth of capital? David, welcome to the podcast. Thank you so much for joining me. It's been a an incredibly long time coming. So it's great that you're finally here.

00;01;07;29 - 00;01;10;00

GUEST

Matt, it's a pleasure to be here. Thank you for having me.

00;01;10;01 - 00;01;16;15

HOST

Not at all. Well, look, can you cast your mind back and, talk to you about how and why you got into to real estate?

00;01;16;18 - 00;01;38;07

GUEST

I suppose I was probably originally channeling myself towards more of a city career. I was doing economics at university, and I was doing sort of internship type roles in the summer and Easter holidays. But one thing led to another, and I got a little bit disengaged. Ended with university life. Not that there wasn't a lot of fun, but there weren't that many lectures.

00;01;38;07 - 00;02;00;05

GUEST

And I think I was probably sort of even then being pulled to the workplace rather than a life of study, which probably wasn't my ultimate strength and I think probably shaped slightly by some family friends. I actually thought property was, a better route for me, and although I didn't have a degree, I knew I needed to get a cognate degree.

00;02;00;07 - 00;02;12;13

GUEST

I felt my best route into the space, funnily enough, was through residential property. At the time, it wasn't where I necessarily thought I'd want to end up, and I was right there. But that's how I. That's how I got into space.

00;02;12;16 - 00;02;17;02

HOST

So you parents, family connections? Not really. From a real estate background?

00;02;17;02 - 00;02;37;04

GUEST

No, really. I mean, you touched on the family piece. When I left university, my father made it very clear there'd be no support, no real help. I was sofa surfing or sleeping on some kindly friend's floors for a while. And ultimately I walked into Strutt and Parker's Sloane Street office all those years ago and said, look, this is who I am.

00;02;37;09 - 00;02;49;15

GUEST

I really want to get into property. I would like to do my degree by distance learning, and if you could support me in that, I would really like to come here and see if I can help you, which is sort of how things got going.

00;02;49;17 - 00;02;53;00

HOST

So am I right in saying you dropped out of your economics degree?

00;02;53;03 - 00;02;53;27

GUEST

Yeah.

00;02;53;29 - 00;02;55;06

HOST

How did that go down with your parents?

00;02;55;07 - 00;03;13;16

GUEST

It's not necessarily all too well. I think there was a level of concern, and the sage advice was that trying to do a degree and work at the same time would be difficult. And in a way, it was. But actually what it did was it really sort of marshaled me at the time, doing a degree and a job.

00;03;13;18 - 00;03;38;07

GUEST

And the great thing is that, you know, in those days, with no sort of money behind me, the estate agency thing was interesting because actually I could earn a decent commission and it allowed me to support myself through my studies, actually, with the help of Sean Parker, who were very supportive too. And it was a sort of a really interesting time when the residential markets were moving so that the way the estate agency at the time was moving was interesting.

00;03;38;07 - 00;03;59;03

GUEST

I mean, you know, in those days Fox News was just starting. I mean, who would have imagined that sort of ten years later, I'd go to Stanhope's business park in Chiswick and see a huge corporate HQ for, you know, for an estate agency business, which in the past had been small chain. So it was interesting and even Stratton Parker today is now owned by, you know, BNP Paribas now.

00;03;59;03 - 00;04;18;12

GUEST

And that's a very different business. But it was good. I was learning the ropes, how to do deals, how to align myself with people. People like the Candy brothers at the time were doing single unit schemes, and when they hadn't got to the Royal Hospital or Hyde Park by that stage, and no one would have imagined how successful they would have been.

00;04;18;12 - 00;04;31;14

GUEST

But as I say, it was sort of an interesting time and a time of change. And as one looks back, you can see

that these sections of one's career were more interesting to look back on in some ways, and they were to live through.

00:04:31;15 - 00:04:34;13

HOST

So were you doing sales? Were you doing kind of lettings at that stage?

00:04:34;17 - 00:04:56;16

GUEST

Predominantly sales and, you know, learning the value of a deal and how to get to know people. There were lots of small time developers in the residential space, particularly in that sort of Chelsea and Knightsbridge environment and estate agency. London's quite different and the state agency, perhaps more nationally, where agents share commissions and so on. So it was sort of a market within a market.

00:04:56;16 - 00:05:20;23

GUEST

And, you know, I worked with some actually some really interesting people there who'd had quite varied backgrounds and went on to do good things in that world. And for my part, I enjoyed it for what it was for that period. But then my career moved on, and I always realized that real estate was very interesting. Not necessarily for its bricks and mortar, but for its ability to generate recurring revenues.

00:05:20;25 - 00:05:48;05

GUEST

And I thought I probably wanted to sort of get to grips with that more and get closer to it. So I knew through some property valuation or a property valuations role, which was another kind of stepping stone for me. But like all these things, fascinating. I actually got involved with some of the landed estates, doing some valuations, for something called the Leasehold Enfranchisement Act, which most of your listeners probably won't know about or probably won't even want to know.

00:05:48;07 - 00:06:06;12

GUEST

But it's really led and it and it effectively plays off the difference in valuation between a short and long lease. And someone has to calculate and negotiate. It goes at that between tenants and that old. And for a while I worked with an expert guy in that field who to this day still does it. And I suspect it's a relatively small market still.

00:06:06;14 - 00:06:33;03

GUEST

And I'm then moved on towards investment and ultimately moved to what was then called GVA Grimley, before a lot of the bigger surveying practices were sort of consolidated and before, in fact, in that particular case, private equity, moved in on an a more traditional partnership business. And I worked through retail investment and those days, you know, extremely busy and flourishing more than, you know, very different to today.

00:06:33;03 - 00:06:58;01

GUEST

Shopping centers were, you know, an extremely popular market. And, I was involved in that. But for a while, and I found myself gravitating towards business space and really, it was sort of at that time that my long term affair with operational real estate began. And it sort of brought me towards that period of the GFC where, you know, it was a really tough time.

00:06:58;03 - 00:07:01;00

GUEST

I was doing a lot of logistics and data centers.

00;07;01;02 - 00;07;02;09

HOST

Still doing investment.

00;07;02;11 - 00;07;03;13

GUEST

I was doing investment there.

00;07;03;15 - 00;07;05;24

HOST

And then you call it you. You qualified, you got you like, yeah.

00;07;05;24 - 00;07;26;11

GUEST

Yeah, I raced on from there. I had no apologies. Yeah. I'd done my degree via distance learning predominantly during my time at Stratton Parker and then moving on to cottage owners who did that sort of management, a specialism, and then went to what was then called GVA Grimley, which then progressed to GVA and then Avis and Young, as most people would know best.

00;07;26;13 - 00;07;33;01

HOST

And so were you. You'd move those different rotations, got your letters and then kind of the investment part of the market was the one that you settled in. You wanted.

00;07;33;07 - 00;07;51;02

GUEST

Very much so. So I went to GVA Grimley then and was given the opportunity to not rotate in the basis that I'd sort of put my career through its own rotation process. And I think they'd seen that perhaps some or all of the corners had been knocked off me, and I was given the chance to work solely in the investment team there.

00;07;51;02 - 00;08;10;07

GUEST

And I worked for a really great chap there called Mark Bowman. And, you know, you're it's all about, you know, so much of life is about luck. But Mark had a very busy role. He was on the board of the business, and as a result, I was very lucky to be able to manage his client base, perhaps more than I would have been able to in a typical role at that stage.

00;08;10;10 - 00;08;20;03

GUEST

And that really was the making of me senior liaising with some very grown up and successful fund managers in the day. At a at a relatively early stage in my career.

00;08;20;05 - 00;08;49;12

HOST

In terms of the investable universe at that time. I've spoken about a few times in this podcast, it was really, you know, from a commercial perspective, retail, offices and industrial kind of business spaces. You you touched on how did operational real estate alternatives, maybe it was cool that, well, how did that kind of weave into the mainstream of work and why, why were you someone who kind of put your hand in hand up or wanted to get involved with that part because that was seen as a left of field by many at that time?

00;08;49;12 - 00;09;21;19

GUEST

Yeah. I mean, at the time, you know, real estate, the office, industrial, it wasn't even logistics really in the

early 2000s is office industrial and retail. And they were called that was the core property space. Anything else was labeled alternative, almost like kind of a it was a bit special or odd, should I say. But the sector really started to take off, I suppose around the time interest was growing, and the opportunity to generate recurring revenues from strong covenants was attractive.

00;09;21;21 - 00;09;41;20

GUEST

But when it really took off was as the cost of capital reduced post the GFC, it meant that people could generate in terms of traditional was a cash carry business that was extremely profitable, of bond style assets. And that is, you know, what has seen a real acceleration in interest in that space.

00;09;41;27 - 00;09;49;24

HOST

Can you just talk on someone listening to this who doesn't understand what cost of capital is? Can you just talk? What does that mean? Because I think that set the context as well for further. When you talk about the REIT space too.

00;09;49;28 - 00;10;20;18

GUEST

Yes, exactly. We'll lead into that neatly. Ultimately people, financing property. And one of the difficulties, of course, with property is that it requires a lot of equity and debt and a big measure of how profitable, a building can be for someone. It is what the net profit is, just like any business. And obviously the lower the the cost of the debt and the higher the LTV, the more profitable, a property acquisition can be.

00;10;20;21 - 00;10;40;25

GUEST

And traditionally this has been called or this has been referred to as a cash carry business. And businesses that exhibit to secure income long leases can generate this, this cash carry and the quality of that, that profit is what distinguishes one business for another in terms of its income security.

00;10;40;28 - 00;10;49;09

HOST

And so you want it's this kind of start focusing your career or kind of moving towards more of this cash carry operation. Real estate part I.

00;10;49;09 - 00;11;13;16

GUEST

Suppose, is like so many things in life, you don't necessarily I can't I couldn't be so confident as to say that I consciously made every decision that has led to what I've done. And the reality is, at the time of the GFC, it was a sad time. You know, on a weekly basis we were saying goodbye to colleagues, but where there was some life in the market was the long income space.

00;11;13;16 - 00;11;40;15

GUEST

I can remember working with some real industry characters and buying long, well, logistics units in sort of the sevens and 8%, you know, net initial yield territory, which then when Blackstone came along and decided to consolidate in that space, some of those what were considered long term acquisitions became value add short term rotations. And some people did extremely well out of that.

00;11;40;17 - 00;11;52;08

HOST

And so talk to me about that period. 70809 the challenges you obviously touched on saying goodbye to colleagues and the market being turned upside down. How did you navigate and what are your reflections of that period?

00;11;52;08 - 00;12;20;29

GUEST

Yeah, well, I mean, it was a tough period, but like so many things, you have to learn to pivot. And it's just like watching businesses who pivoted well during Covid. I mean, I'm sure a lot of people went home and thought, this is the end of my business. But I think if you think broadly and if you think big, usually there's an opportunity amongst the difficult times it might be moving your business from a B2B business to a B2C business.

00;12;21;01 - 00;12;52;20

GUEST

In the case of property, then it didn't happen by any means overnight. But what did happen was the cost of debt started to dramatically reduce, which ultimately fueled a property bubble, which we've been living with recently in terms of that adjustment and what that means for so many parts of the market. But then as the cost of capital started to reduce, it meant that property became increasingly interesting because the profits that one could generate from the income streams became increasingly large.

00;12;52;20 - 00;13;21;20

GUEST

And the spreads between, you know, buying, a government gilt and buying a property became or the property yields continued to trend down, the spreads between property yields and government gilts got actually increasingly wide. So it propelled the property market and with that that propulsion. So a lot of interest internationally and property has become increasingly international. I mean, if I look back even ten years, we all thought the property markets were incredibly international.

00;13;21;20 - 00;13;50;20

GUEST

But the way things have moved forward, the equities Asian of property has seen that become increasingly so. I mean, you can look at some businesses whereby there'll be 2 or 3 similar businesses listed on an exchange and perhaps the largest and the smallest one, both on the exchange, might have a number of businesses that are not listed and fewer people have heard of between them, which is going to go to talk about how broad the capital is that interplays with the sector and how international it is.

00;13;50;20 - 00;14;19;04

GUEST

I mean, I can think back that it wasn't that long ago that dealing with sovereign wealth or institutions from Australia would have been very unusual in your everyday career. And now look at those businesses who are flooding here in many respects. You know, the UK is it is a large market even within the big four in the, you know, in Europe, you know, in terms of the volumes of deals that take place here versus Spain or France or Germany, it's very significant.

00;14;19;04 - 00;14;26;00

GUEST

So those houses do tend to come here. And I think that has really seen the market continue to evolve and change.

00;14;26;05 - 00;14;44;06

HOST

So in terms of your role while you're at GVA, you kind of stayed there until 2014. Did you kind of shift away from industrial logistics and office kind of investment activity to being more kind of healthcare or alternative driven in terms of the types of deals you're working on?

00;14;44;09 - 00;15;13;06

GUEST

Absolutely. I mean, at the end of the day, in my role, at GVA Grimley, which became GVA when I was there, one had to have a weather eye on where you thought you could generate transactions and

ultimately fees. The difficulty for me was I'm not sure I was necessarily always, I found it easy to provide impartial advice, but you had to be careful how you couch that because, you know, there was the interest of the business you worked for and ultimately interest of your clients.

00;15;13;06 - 00;15;29;24

GUEST

And I think for me, I was probably realizing that my interest was more around building and delivering strategy than it was to help companies who've created a strategy and wanted to deliver it them as a third party, I think. So, rather.

00;15;29;24 - 00;15;30;16

HOST

Than advice.

00;15;30;17 - 00;16;12;22

GUEST

I said, I think I felt more comfortable with making that transition. So I sort of set about the task of doing that. And by that stage, really, I'd focused on pretty much logistics and data centers, and it was a pivotal time that the two had some crossover, because, of course, in those days, people people misunderstood data centers for being an over rented industrial unit, which my job really then was to decode that and explain how they were very different sectors with very different drivers, and how the rents didn't necessarily need to correlate any more than the rent would be in a zone, a VA shop or an Oxford Street or an office in Birmingham.

00;16;12;22 - 00;16;36;19

GUEST

They're completely different products. So it was fun getting under the skin of that. And like everything with property, if you don't understand your tenants, you don't know where that sector will go. Obviously the drivers of the tenants are important, but I think that if you treat property purely as a commodity and, under consider what's driving your tenants and their demand, you're moving into a dangerous space.

00;16;36;19 - 00;16;57;05

GUEST

But for me, by that stage, I'd become clear that moving towards building and delivering strategy is what I really wanted to do. And funnily enough, one day the phone rang. And like all these things, you take these calls and there was, a headhunter talking about an individual I hadn't come across who wanted to build an education fund.

00;16;57;07 - 00;17;15;16

GUEST

And at the time, my ambition was clear, and so I knew where I wanted to go. And it had been part of a kind of a consistent theme that I wanted to get closer to the strategy, closer to financing, understanding how the financing of these assets plays into the profit lines. And I thought it was a very interesting concept.

00;17;15;16 - 00;17;43;03

GUEST

You know, could I build an education fund? And actually, the specifics of what it was made complete sense to me. It was, you know, it was demands led. It was covenant driven. And you could build what, you know, we were learning at the time from the states, these triple net leases. So I was really interested in it. The wise friends of mine who were kind of older fund managers at the time said, well, that sounds like a brilliant business plan, but we haven't seen any stock.

00;17;43;03 - 00;18;02;16

GUEST

So, you know, if you can make that happen, good luck to you. But that would be my major concern. But a bit like walking into Stratton Parker, asking if they might give me a job back in the early 2000. I decided to take a chance, and that chance paid off. Well, I was running a Jersey Property Unit trust, which at the time is a new structure.

00;18;02;16 - 00;18;04;11

GUEST

I wanted to get to understand, which.

00;18;04;11 - 00;18;05;18

HOST

Means it's domiciled outside.

00;18;05;18 - 00;18;28;19

GUEST

Of. Exactly. It's a registered businesses registered in the Channel Islands, which had some tax advantages and it meant that I had to run that offshore and go back there to make decisions. And that business was backed by private equity again, something that I was fascinated in. How the interplay between private equity, a real estate could work, and both to my good fortune and misfortune, I learned some good and bad lessons there.

00;18;28;19 - 00;18;55;27

GUEST

But it was fun. We did manage to identify stock, but in a very different way than I was used to, which taught me an awful lot about joining dots and routes to property and the, you know, the property market really isn't just about the mainstream and that you need to look much wider in order to identify, these opportunities, particularly if you're sort of trying to do it for the first time, you know, beating down your path slightly, you're off piste skiing, for example.

00;18;56;00 - 00;19;16;29

GUEST

It was hard work. But in a think about 24 months, we built a portfolio of getting on for 100 million sterling. And, although the private equity firm that backed that vehicle ended up being taken over by a US corporate raider, which was another life lesson for me and therefore prompted a sale of all the portfolios that that business had.

00;19;16;29 - 00;19;43;09

GUEST

And I was the only one, running anything, in the property space. It was a bittersweet time because it was extremely successful, partly because we put something that was very good together and the occupational space consolidated in education with some great covenants. So the yields just naturally tumbled. But also, like anything in the property world, I've learned that you can do the best deal at the worst time and vice versa.

00;19;43;11 - 00;19;59;18

GUEST

And you can't really change the outcome. But as it happened in the tailwinds behind this, and it went well in that portfolio we sold to a UK institution and and very profitable. It was to and that's what led me to my last role at Primary Health Properties.

00;19;59;21 - 00;20;20;24

HOST

So before we get on to PFP, so one of the challenges, would you did some really good work at pine? I believe it's cool. It was in terms of identifying the sector covenant, the opportunity said the occupiers did some deals, but it was the USP behind or the money behind the venture that effectively changed and



forced your hand to sell the platform.

00;20;20;24 - 00;20;57;19

GUEST

Yeah, yeah. I mean, just to be clear, it was banked that pine was effectively backed by a, a Footsie listed private equity house. It was called Electric Capital Partners. And ultimately, yes, it was taken over or or an activist investor, should I say, ultimately invested enough in that business in order to dictate that new business plan, which basically ended up involving the the sub code selling their businesses and pine, as it were, as it was then, was one of the property for for those that were sold and ultimately it road tested a new sector and it was successful.

00;20;57;21 - 00;21;02;25

HOST

But incredibly frustrating from a personal perspective, just all the hard work and time and effort to get it to that well.

00;21;02;25 - 00;21;24;20

GUEST

At the time it was, I sort of sold myself out of a job, and at the time I thought that it could go, it could have grown a lot further. And, you know, there was interest at that stage to consider an IPO. The market was open for IPOs then very much, and there were plenty of tailwinds there in terms of how property shares were trading in relation to the Nav.

00;21;24;20 - 00;21;47;18

GUEST

You know, the asset values that the businesses held their portfolios in. So the you know the tailwinds existed. But it looks like life is it has a wonderful way of working out. That was in about 2017. And it wasn't many years later when things radically changed. So yeah, so you know, at the time with the information I had, I would love to have continued growing it, but ultimately it did very well.

00;21;47;18 - 00;21;56;08

GUEST

And although perhaps it would have been commercially astute to carry on for a while, sometimes taking your money off the table isn't a bad thing.

00;21;56;10 - 00;22;37;25

HOST

So you moved to AP Primary Health Properties. What was the role that you went in to do that quick one from me. If you haven't already subscribed or followed this show on the podcast or app where you listen or watch, please do. It takes 10s and helps tremendously. I've got really big plans for people property plays podcast, and that one small action really, really helps grow the show and the present and enables us to keep doing what we do.

00;22;37;26 - 00;22;47;04

HOST

So if you haven't already, please follow or like on the platform you watch or listen to. Thanks so much.

00;22;47;06 - 00;23;05;25

GUEST

I went in as the the individual who, did investment effectively at that stage. It was initially it was just me, and from there the business and the teams all grew. I mean, PHP has been a wonderful success story and something I, you know, I look back on extremely fondly.

00;23;05;27 - 00;23;12;15

HOST

What was the size of the portfolio at the time and how much kind of firepower did you have? It was a strategy just in terms of kind of going to build the business.

00;23;12;15 - 00;23;32;01

GUEST

Yeah, I think the the portfolio roughly doubled in size while I was there, perhaps even more than that, I think perhaps tripled in size, but the Nav doubled and the portfolio today stands about 3 billion. So, you know, give or take. It was a at that stage it forks over a billion AUM. And the business grew organically through acquisition.

00;23;32;01 - 00;23;44;14

GUEST

It grew through moving into a new territory in Ireland, which was extremely, extremely enjoyable part of my career. And of course, and everyone I know. FB did an all share merger with medics back in 2019.

00;23;44;16 - 00;23;48;09

HOST

I, Ed Cluff of Octopus was on the podcast and he touched on that.

00;23;48;10 - 00;24;12;29

GUEST

Okay, yeah, you I mean, through that transaction, I did work with Ed and actually as it happened, it was great fun because we obviously merge those two businesses and there was one ongoing development which obviously PHP ended up running. But Ed was effectively the managing it as a, as a developer, really, in his capacity then. So yeah, I got to know Ed quite well and we had some good times.

00;24;13;01 - 00;24;23;20

HOST

What is primary health for people or primary care for people who are listening to this, who actually don't understand, what that is? And can you just break down the different parts of kind of the medical or the health care? Well.

00;24;23;22 - 00;24;46;21

GUEST

Sure. I mean, primary care actually is perfectly described in its name. It is the first port of call for people to interact with, the doctor or the NHS. I phrase it like that now because there are, in some cases, some private GP's out there, but very much in the main people go to an NHS, GP and that is your first touching point on the health system.

00;24;46;21 - 00;24;52;28

GUEST

So primary care is just that is where you go and see your GP and that is the that the interface.

00;24;53;00 - 00;25;08;21

HOST

And what kind of assets or stock or is it offices, is it kind of retail units. Well, in terms of kind of the stock that you're looking to go and buy, where typically are these dentists or doctors or, kind of other primary health occupiers?

00;25;08;23 - 00;25;47;19

GUEST

Well, way back when primary care was not necessarily found in the sorts of modern purpose built buildings you see today. And they might have been in converted residential buildings, but things have dramatically moved on since then. And now developments in the primary care space, certainly outside major cities, are standalone purpose built facilities whereby there'll be some amalgamation of other health

providers, pharmacies, dentists might be examples, physiotherapists and other, and I suspect in the future more diagnostics too, but very much driven currently by the doctors midwives.

00;25;47;21 - 00;25;59;24

HOST

And so the kind of the asset class itself is gone through an institutionalization or just a kind of a demand or need to have better quality purpose, built specific assets for their work.

00;25;59;26 - 00;26;23;04

GUEST

The asset class has like lots of things, definitely institutionalized. And just like the rest of the the listed property space, more and more funds are structured as rates and focused on specific subsectors. And obviously the healthcare space is dominated by businesses like PHP or Shura or Target and so on.

00;26;23;07 - 00;26;26;26

HOST

And it's government backed predominately in terms of the the income. Right.

00;26;26;28 - 00;26;51;26

GUEST

In the case of PHP, yeah, the GP's rent is reimbursed by the government. So indirectly it is government income. And obviously that's attractive for people. And talking about secure income earlier and that cash carry business that I was explaining obviously for, for, for a business like PHP, it generates, you know, very attractive income whereby you can rely on the rent.

00;26;51;26 - 00;26;58;08

GUEST

And during Covid, they still had effectively 100% rent collection, which is attractive for people.

00;26;58;10 - 00;27;01;07

HOST

It's really defensive as well as provides is output only.

00;27;01;07 - 00;27;21;10

GUEST

It's defensive secure income. And like all these businesses, you know they'll need to continue to grow their dividend and they'll be pleased. I'm sure there'll be a sigh of relief as the cost of capital starts to neutralize a bit. I'm not suggesting for a second it will go back to where it was, but these things will all be positive tailwinds, I think for those types of businesses.

00;27;21;12 - 00;27;26;13

HOST

Can you talk to me about the expansion into Ireland? Because if I'm not mistaken, about a 300 million pound portfolio over there?

00;27;26;16 - 00;27;51;29

GUEST

Yes. Yeah. We built the the largest privately held primary care portfolio over there, but started that process back in about the very much the beginning of 2017. And really, I hadn't been I think I'd been to Ireland once, perhaps on a stag do prior to going to start a business there. But it was a great experience, you know, doing business in another country, even one so close to home where the language is the same, is different.

00;27;52;03 - 00;28;20;04

GUEST

And, you know, you've got to navigate a completely new set of contacts, but with a lot of trips and to Ireland and working with some great people, we did build an enviable portfolio over there. Very much. Piggybacking off the Irish is alternative to our NHS. The HSC, their ambitions to grow their primary care estate and obviously like a lot of governments they wanted, didn't want to fund that all with capital and revenue payments.

00;28;20;04 - 00;28;28;11

GUEST

And the via rent checks meant the for people like PHP, it was an attractive opportunity to get there, and provide that state.

00;28;28;13 - 00;28;32;22

HOST

And it was that through a mix of investment activity as well as development.

00;28;32;25 - 00;28;53;23

GUEST

Yeah. You know, in specific markets, you really do have to look at all the channels to product. So in that case we were funding developers. We didn't take development risk in Ireland, but we did fund developers. And there was always a crossover between the two. But strictly speaking it was development funding. We acquired corporates that sheltered assets already built.

00;28;53;25 - 00;29;16;22

GUEST

We acquired investments that were held by companies or individuals and we would have done certain lease backs, but it's not quite the right structure there because the leases are predominantly to the government. They could do sale and leaseback, but I don't think that's likely. We did do certain respects in the UK. So yes, really all routes to market there other than on balance sheet development.

00;29;16;24 - 00;29;26;20

HOST

Can we just talk a little bit about rates as well, why rates exist and the kind of competitive nature or the edge that rates have in terms of other maybe structures?

00;29;26;22 - 00;29;52;17

GUEST

Well, yeah, for sure. I mean, there's a short answer and a long answer to that. And I'm pleased to hear I'm going to go down the short route. But fundamentally the advantage of a rate is that they don't on the basis that they pay out, call it 90% of their income to its shareholders. They don't have to suffer, corporation tax, which means that the dividend that they can afford to pay should be enhanced.

00;29;52;19 - 00;30;24;02

GUEST

And equally, it provides investors the opportunity to acquire a share class and otherwise relatively illiquid assets, which should have great governance with the board of directors in order to be able to have transparency on how that business is being run. And as you can see in the majority of the large listed businesses on the stock exchange are rates, particularly those that have the right characteristics to allow them to generate an income stream, which they can pay out rather than needing to retain it for purposes like development.

00;30;24;02 - 00;30;30;11

GUEST

For example, and meet the criteria, which means they can satisfy the REIT regime.

00;30;30;13 - 00;30;48;23

HOST

So based on what you've just spoken about, why has there been, in your opinion, so much kind of consolidation in the REIT space at the moment? To give a couple of examples for people who may not be following the news quite as much as we do, but Alex in London, metric, tri tax and UK from a commercial property custodian property Income REIT with Aberdeen Property Income Trust.

00;30;48;23 - 00;30;59;20

HOST

And you know in the press it's muted about new rivers bid for capital and regional as well. Of course there's going to be some back office efficiencies that can be driven by it. But why else in your opinion are so much.

00;30;59;20 - 00;31;26;24

GUEST

Yeah I mean you've mentioned some deals, some of which haven't happened, some of which were rumored to happen and some of the parties involved them have ultimately changed. But ultimately, yes, there are. There's a group of deals there which represent consolidation and the stage in the market for the REIT space. Having had to get to grips with the change in the cost of capital, one of the advantages they can drive is reducing costs or improving liquidity by growing the scale of their business.

00;31;27;02 - 00;31;54;08

GUEST

So that's one of the things that those businesses will have been thinking around in terms of driving those mergers and acquisitions equally. I think that this will be heralded as a very, very pivotal time in the property market. You know, we're seeing stabilizing, stabilization of valuations. We're seeing tenant demand gently growing, and we're seeing more positive signs on what the cost of debt looks like.

00;31;54;14 - 00;32;27;04

GUEST

So I think what you'll find is that those listed players that have engineered those mergers that you refer to, I think that they'll be I think with benefit a little time, I think that those deals will be seen very positively and equally. We're now seeing the emergence of, private equity. You're getting involved in the property space in a more sort of significant way, whether it be, Lone Star or whether it be Mirror Star, whether it be KKR, all of which have been involved in the property market over the course of the last few months.

00;32;27;04 - 00;32;41;18

GUEST

And indeed, new entrants. In terms you referred to Aberdeen, I think we were reading in the press just today, the Golden Tree, a rumored to be buying that portfolio too. So I think the emergence of private equity coming off the sidelines and getting involved in a sector like mergers is great.

00;32;41;18 - 00;32;45;23

HOST

But there's industrials re buying segments together as well. As a case in point of that.

00;32;45;23 - 00;33;04;05

GUEST

I think it is. Yeah. I think you know Blackstone have been looking further afield than just the UK as is their way in. And I think they've got to really have got a global handle on real estate and probably a file on most situations. But yes, they also acquired Bristow Stone off the Johannesburg Stock Exchange as well recently in what was a mega deal across Europe.

00;33;04;05 - 00;33;29;03

GUEST

So things really are happening. Definitely the structural level. I think the sort of day to day commercial

property transactions still remain relatively thin, and I don't think that the transactional volumes this year will be interstellar. I'm not actually ever sure whether or not these corporate acquisitions and structural changes are adequately covered in the figures. When people are reporting on what the property transactions look like.

00;33;29;03 - 00;33;48;23

GUEST

But nevertheless, I think this year will remain a little bit more muted in terms of the total volumes, certainly a lot less than they were in 21 and 22. But I think that looking forward, I think that those headwinds are moving to gentle tailwinds. And I think things are improving. And I think we'll see more activity and consolidation in the list of space.

00;33;48;26 - 00;33;56;06

GUEST

And I think we'll see more activity from the private equity institutions who are getting more involved, as we just refer to some deals.

00;33;56;09 - 00;34;07;27

HOST

The REIT space is, often referred to as a bellwether for the wider property sector. What do you think some of the other indicators are over and above what you've maybe just touched on, that we can kind of look, look to?

00;34;08;00 - 00;34;36;21

GUEST

Well, the rich space offers great transparency. I mean, do you and I started in a year, years ago. The size of the report on accounts is probably half what it is now. So transparency just gets clearer and clearer. So yes, it is a bit of a bellwether for that reason. And look what we've been seeing persistently in the REIT space, which is why the the real estate side of new share indexes lagged.

00;34;36;21 - 00;35;00;28

GUEST

The performance of the rest of the index quite significantly, is that this change in the cost of capital, which we referred to a couple of times now, has meant that the sentiment for these properties has not been these property companies, sorry, has not been particularly positive. And as a result, the discounts that you can buy the shares in these property companies act as a discount to Nav have been quite wide.

00;35;00;29 - 00;35;27;08

GUEST

But what we're seeing now is at last, those discounts are narrowing almost by the week. And I think that's going to be you know, I think I think that provides positivity for sure. But I think while those discounts still exist, we'll see continued M&A in the space. There's already been quite a long majority of it B2B. I think some of it will be now or so I say B2B, I mean, you know, listed partners, a listed partner.

00;35;27;10 - 00;35;51;26

GUEST

I think we're seeing some more take privates now, which is interesting. And I think that while people can buy, but while people can engineer transactions whereby they can pay a premium to the share price but a discount to the Nav, it will remain attractive to all parties, particularly in particularly in some cases where businesses are, not being rewarded for smaller portfolios.

00;35;51;26 - 00;36;08;15

GUEST

And therefore those discounts are perhaps a bit wider than they might otherwise be if they were larger, which goes back to consolidation in the space. And funds merging effectively, whereby they've got

portfolios that have an appropriate mirroring of one another.

00:36:08;17 - 00:36:13;05

HOST

And then there's quite a few of them, and then they can dispose of the non-core assets and refocus. Yeah.

00:36:13;05 - 00:36:26;10

GUEST

And I know, you know, I think we'll we'll continue to see that. And we have seen some of that going on. I suppose you referred to it's businesses like LMP and Lex. I had some obvious crossovers businesses like.

00:36:26;12 - 00:36:26;26

HOST

Try to.

00:36:27;00 - 00:36:34;13

GUEST

Try tax you but try to zero box and see grow again. And a great example of obvious crossover.

00:36:34;16 - 00:36:52;14

HOST

DB pension fund money is drying up. When you're an investor or developer, you always need to look at what your exit is. And with maybe DB pension fund money drying up, is that going to kind of influence or change investors thoughts about a potential exit when they're building up portfolios?

00:36:52;16 - 00:37:13;12

GUEST

Ultimately, the fundamentals of what you say, of course, is true in terms of without demand. There is a muted market right. But I think as money comes out of DB and into DC, you'll see that people's allocation towards property won't necessarily radically change. It might change in terms of what sectors they trade out over and into.

00:37:13;12 - 00:37:42;12

GUEST

And obviously at the moment you're seeing a lot of interest in the living space and the logistics spaces and less interest in retail and office space. But that's just a function of, you know, what people consider the right, right pocket of property is to be in in order to see performance through beer, capital appreciation or rental growth. But I think the overall allocations towards property aren't likely to go down significantly.

00:37:42;14 - 00:38:04;04

GUEST

Obviously, there have been significant outflows in some funds for a while, but I think that as things settle down, those outflows will stabilize and are probably stabilizing and in time will build. But I think there will be a core threshold that people will want to have allocated in property. And I thought as things continue to gently improve so that those allocations will start to build again.

00:38:04;06 - 00:38:17;24

HOST

Can we go back to, talking about you obviously joined in an investment capacity rising to to CIO. Can you just talk to me about the journey in terms of how your role changed and maybe the managerial aspect as well, and how you went about building a high performing team?

00:38:17;24 - 00:38:36;19

GUEST

Yeah. Well, actually, I have to say, I think you helped me build out that team. So obviously that was, that was great. And we did employ some really talented young people who have no doubt will be on this podcast in years to come. But yes, the business grew, and with that, the teams needed to grow. And with that, my role continually evolved.

00;38;36;19 - 00;39;14;22

GUEST

And as I said, I went on as a sort of investment director capacity and ended up being, the chief investment officer. And I think really, I mean, the biggest change in that period was I sort of went through the management process and then further on into sort of not only being responsible for the kind of the strategy of, of the business in terms of how we what we were to acquire and what we dispose of, but also communicating that to analysts and shareholders and really having to get to grips with not just the property side of the business, but actually the operational side of a listed property company, which I really enjoyed.

00;39;14;25 - 00;39;24;00

HOST

You resigned from your post at PHP earlier this year to take some time out. The first time you've taken some time off in 2020.

00;39;24;02 - 00;39;47;01

GUEST

Exactly the first time I have, and really it's, you know, PHP has been was a wonderful journey, but I think that things are changing. And I think that if I look back on previous property cycles, they might change faster than we all might expect. And when that momentum gets going, I think we'll go into it. And I think we're moving into have moved into actually a new cycle.

00;39;47;01 - 00;40;08;08

GUEST

And I just felt that it was time to, to explore something new. Now, I've been at PHP for eight years and I think that it will be for this period. Looking forward, it would be exciting to be involved in something different, so it's not always as easy as you might think. Looking for a new occupation from a position of employment, particularly in this space.

00;40;08;08 - 00;40;16;04

GUEST

So I took the decision to have a bit of a break, spend some time at home with the family and do a few trips during the summer. But yes, now looking forward.

00;40;16;06 - 00;40;33;25

HOST

How have you found that time away? Because I was talking to someone recently who is in the garden, as it were, and they were saying, it's great, but there's a reason why holidays are two weeks and I'm keen to go and get back into work and find something new. How's it been? Has it been an enjoyable time to take, you know, more than two weeks off for the first time in 20 years?

00;40;33;27 - 00;41;04;08

GUEST

I think actually it it genuinely has. It was aided, of course, by some good weather and the school holidays, which had had its ups and downs, but mainly ups and the chance to do a bit of travel and sometimes a chance just to sort of reflect and sit back. I mean, it's amazing how even when you think you're in a role which is broad and, you know, working in the list of space in PHP was broad, but there's always a chance to read more broadly and liaise with more people and look at more things.



00;41;04;10 - 00;41;18;18

GUEST

And I've really enjoyed the opportunity to sort of take a bit of a step back and do that. And I think that'll set me up well for sort of what I get involved with next, rather than sort of having to jump from. We know one thing to another, I think it'll allow me to have more perspective.

00;41;18;21 - 00;41;28;29

HOST

And what are those things that you've been kind of reading, looking at to kind of give you a broader perspective or help kind of inform your decision making in terms of a new role or a new direction.

00;41;29;05 - 00;41;54;28

GUEST

Well, like all these things, it's about joining dots. But the more dots you familiarize yourself with, the more broadly you can think. And I think hopefully it'll lead me towards, something that I think will work well as the cycle moves forward. And I think that there are a number of very interesting hotspots at the moment. I think, will probably see renewed interest over the next months and weeks and months.

00;41;55;01 - 00;41;57;29

GUEST

And I think that'll be, you know, something to look at carefully.

00;41;58;05 - 00;42;02;09

HOST

Can you share what those hotspots are or where the opportunity set is from your perspective?

00;42;02;12 - 00;42;27;11

GUEST

Well, I mean, I think broadly speaking, I mean, as this new cycle really starts to sort of get some momentum, I think there'll be opportunities across all sorts of spaces. My background is mainly focused on operational income, low income and secure income. And I think in those spaces I'll continue to focus. But I think that my focus will become a bit broader rather than just focus on perhaps healthcare.

00;42;27;14 - 00;42;48;05

GUEST

I think that there'll be some very interesting opportunities both in the UK and Europe. I think some of the debt financing, particularly in European zones, will lead to some situations. And I think that, you know, cool place as opposed to just cool. We'll see some real bounce backs as people want to move back towards long income, but perhaps long income with a little bit of a twist.

00;42;48;05 - 00;42;55;00

GUEST

So I think that some of those sorts of things will be what I'm looking at and what I'll be talking to. Some potential partners about.

00;42;55;03 - 00;43;07;13

HOST

ESG is obviously an acronym, a buzzword that's been around for a number of years now, but it's becoming sharper and sharper into focus. How do you feel about ESG when looking at investment and development opportunities?

00;43;07;15 - 00;43;34;09

GUEST

I think everybody has to welcome ESG. It's not necessarily convenient, but it should be welcomed and embrace. And fundamentally, I think it's one thing talking about a green premium for assets. But I think

the brown discount will become far more of a downside risk than than anything else. So I think it's an absolute must. But what it does do is it throws up some, particularly the environmental side of ESG will throw up a lot of opportunities for people.

00:43:34;11 - 00:44:00;12

GUEST

The enhanced specification that you need to build buildings to top flight environmental credentials is much, much higher than it used to be. And what's really interesting about that is that you can acquire buildings that have predominantly good environmental credentials at a cost which might be less than the replacement cost, which I think is a very interesting piece in the investment market right now.

00:44:00;15 - 00:44:18;18

GUEST

And I think that what that points do is that rents in many sectors will have to move on in order to create viability. But that piece aside, isn't it an interesting concept that you can buy buildings for less than the replacement cost value, or the same as a replacement cost value? And doesn't that bode well for values going forward?

00:44:18;21 - 00:44:21;18

HOST

Risk mitigation? I think.

00:44:21;20 - 00:44:33;00

GUEST

I think so. I think I don't think bill costs are likely to go down anytime soon. I think that what happens with build cost inflation is that the inflation will slow down, but it's unlikely build cost will reduce.

00:44:33;02 - 00:44:36;22

HOST

Interesting mentorship. Have you ever had mentors during your career?

00:44:36;24 - 00:44:46;05

GUEST

Yeah, both directly and indirectly. And I think at all stages of your career, having a good mentor is priceless.

00:44:46;08 - 00:45:00;10

HOST

If you reflect on your 20 plus year career, what advice would you give to the younger you or someone who maybe finds themselves in a similar position? Maybe here today that you are ten, 15, 20 years ago?

00:45:00;12 - 00:45:26;07

GUEST

Well, what I'd say is looking back on my career actually retrospectively, and isn't hindsight a wonderful thing? I think each part of my career is more interesting to look back on than perhaps I knew that it was at the time. So I think if you were in a role and you're thinking yourself, well, this isn't great, it might be that you're more, involved with, sort of the forefront of property than you might realize.

00:45:26;07 - 00:45:41;24

GUEST

I mean, you look back on it, you might think that actually weren't those interesting times because in my experience, things are always changing. And if you're involved in something that's successful during those periods of change, actually it can be great fun and hopefully remunerative.

00:45:41;27 - 00:45:52;04

HOST

So as we draw to a close, David, a question I ask everyone who comes to the podcast is if I gave you 500 million pounds worth of capital hit of people, what property, in which place would you look to deploy it?

00:45:52;06 - 00:46:20;24

GUEST

Well, I've now just realized why you call it people property, face. Okay, well, I'd have to go back to the fact that I would stay true to my expertise and I would remain focused on operational real estate, and I'd probably be looking at the core plus space within it, and I'd remain focused on probably the UK and the main geographical jurisdictions in the UK being France, Spain and Germany.

00:46:20;24 - 00:46:44;01

GUEST

I think there'll be some interesting things to look at in those areas too, particularly where, as we said earlier, capital is international one B funds which need to prune their portfolio. And that will mean in order to work with them and align yourself with them, you'll probably need to have an outlook that's broader than just the UK. Certainly if you want to look at things at scale.

00:46:44;01 - 00:47:07;28

GUEST

So that is where I would be focusing myself. And I think that as the cost of debt neutralizes a little bit, I don't think it's going to be a seismic adjustment, particularly when you look at, where the forward rates curve is and swap rates are today. But I do think it will continue to improve. And I think that that will be an opportunity for the long income space, which has been a bit unloved for the last few years.

00:47:07;28 - 00:47:09;23

GUEST

But herein lies an opportunity.

00:47:09;26 - 00:47:24;24

HOST

With this next cycle, all the indicators lining up to hopefully ensure that people can take advantage of it. Well, look, you've had a, a fascinating career. Thank you so much for being so generous with your time, your learnings and some of your insights. I'm really excited to see, what you're going to do next.

00:47:24;25 - 00:47:30;00

GUEST

Oh. Thank you. Very nice to have joined you here on this podcast.

00:47:30;03 - 00:47:52;16

HOST

Thanks for listening to this week's episode People Property Place Podcast. If you found it insightful, feel free to share it with a friend or colleague. Give us a rating, light, or comment. It helps tremendously. It'd be great to hear from you on LinkedIn. I'm super open minded to recommendations of guests we should have on the show or areas of the market.

00:47:52;18 - 00:48:19;25

HOST

We should explore further. So do drop me a message. The People Property Plays podcast is powered by Rob on the team recruit, leadership and future leadership hires for real estate owners, funds, investors and developers. So if you're looking to hire top talent for your business, head over to the website. Rob Buncombe, where you'll be able to find a wealth of information.

00:48:19;27 - 00:48:27;21

HOST

Or feel free to drop me a message on LinkedIn. Have a great day wherever you are, and I look forward to catch you next time.