The IPF Research Programme 2006-2009

Depreciation in European Office Markets

Universities of Aberdeen and Reading
Investment Property Databank

Background

- IPF funded research
- January 2008 – March 2009
- Extending previous IPF work on depreciation rates in UK
- This project – office markets in six European cities
- Individual property data: processed by IPD
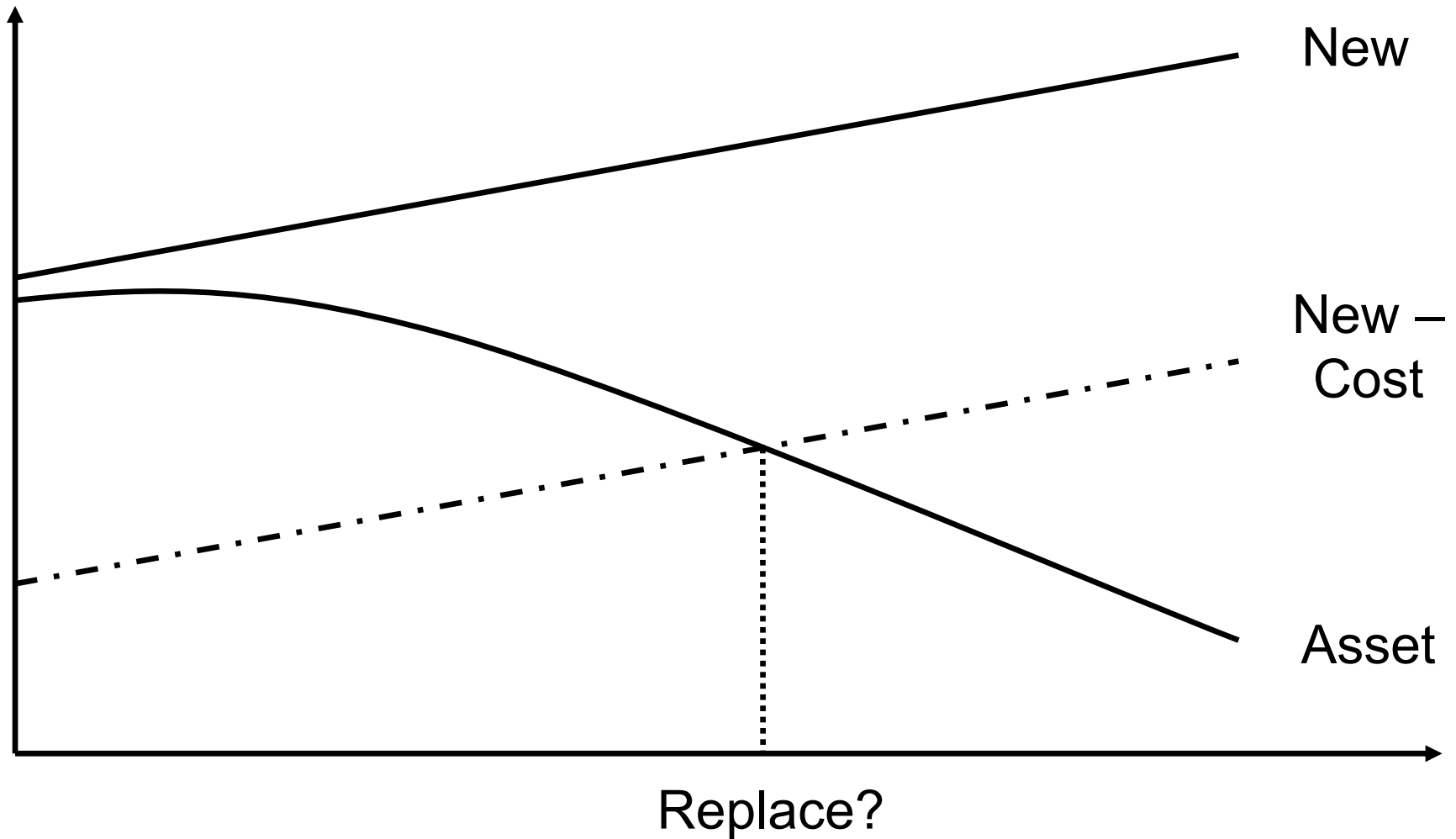- New/prime rent data: CBRE, Atisreal

Rental depreciation

"*the rate of decline in rental value of an asset (or group of assets) over time relative to the asset (or group of assets) valued as new with contemporary specification*"

Law (2004)

A relative concept

Rental depreciation

"*the rate of decline in rental value of an asset (or group of assets) over time relative to the asset (or group of assets) valued as new with contemporary specification*"

Law (2004)

- Happens because of time, aging and events
    - → Deterioration
    - → Obsolescence

IPF (2005)

Funded study for UK found the following results:

	1984-2003		1993-2003	
	Rental depr[1]	Cap exp	Rental depr[1]	Cap exp
St Shops	0.1%		0.3%	
Office	1.0%		0.8%	
Industrial	0.6%		0.5%	

Note 1 : rates are annualised.

IPF (2005)

Funded study for UK found the following results:

	1984-2003		1993-2003	
	Rental depr[1]	Cap exp[2]	Rental depr[1]	Cap exp[2]
St Shops	0.1%	0.6%	0.3%	0.5%
Office	1.0%	1.0%	0.8%	0.9%
Industrial	0.6%	0.8%	0.5%	0.4%

Note 1 : rates are annualised. Note 2 : as % of capital value, average p.a.

This project

- Measure depreciation and expenditure for:
  - Five markets over 1997-2007, and
  - One market over 1999-2007

- Expect differences
  - Baum and Turner (2004) – leasing
  - Other factors – design, management

- But also issues surrounding the property cycle in each market and data definitions / quality

Sample datasets

	Time horizon	Sample size	% of full IPD in 1997
Amsterdam	10 yr	38	36%
Dublin	10 yr	35	36%
Frankfurt	10 yr	17	22%
London City	10 yr	81	16%
London WE	10 yr	135	19%
Paris	8 yr	169	18%
Stockholm	10 yr	36	16%

Results to date

	No of Assets	B'mark Rental Growth	Sample Rental Growth	Rental Depr Rate
L'dn WE	135	9.0%	6.6%	2.2%
L'dn City	81	2.3%	1.9%	0.4%
Amsterdam	38	3.2%	3.6%	-0.4%
Dublin	35	9.5%	7.7%	1.7%
Frankfurt	17	2.9%	-2.1%	4.9%
Paris	169	4.3%	5.6%	-1.3%
Stockholm	36	3.9%	5.9%	-2.0%

What do results show?

- Confused pattern at aggregate level
- Results will be strongly influenced by characteristics of markets, e.g.
  - Stock, Leasing, Expenditure
- If more spending, expect less depreciation?
- Also need to examine age of sample in the context of the age of the stock in general
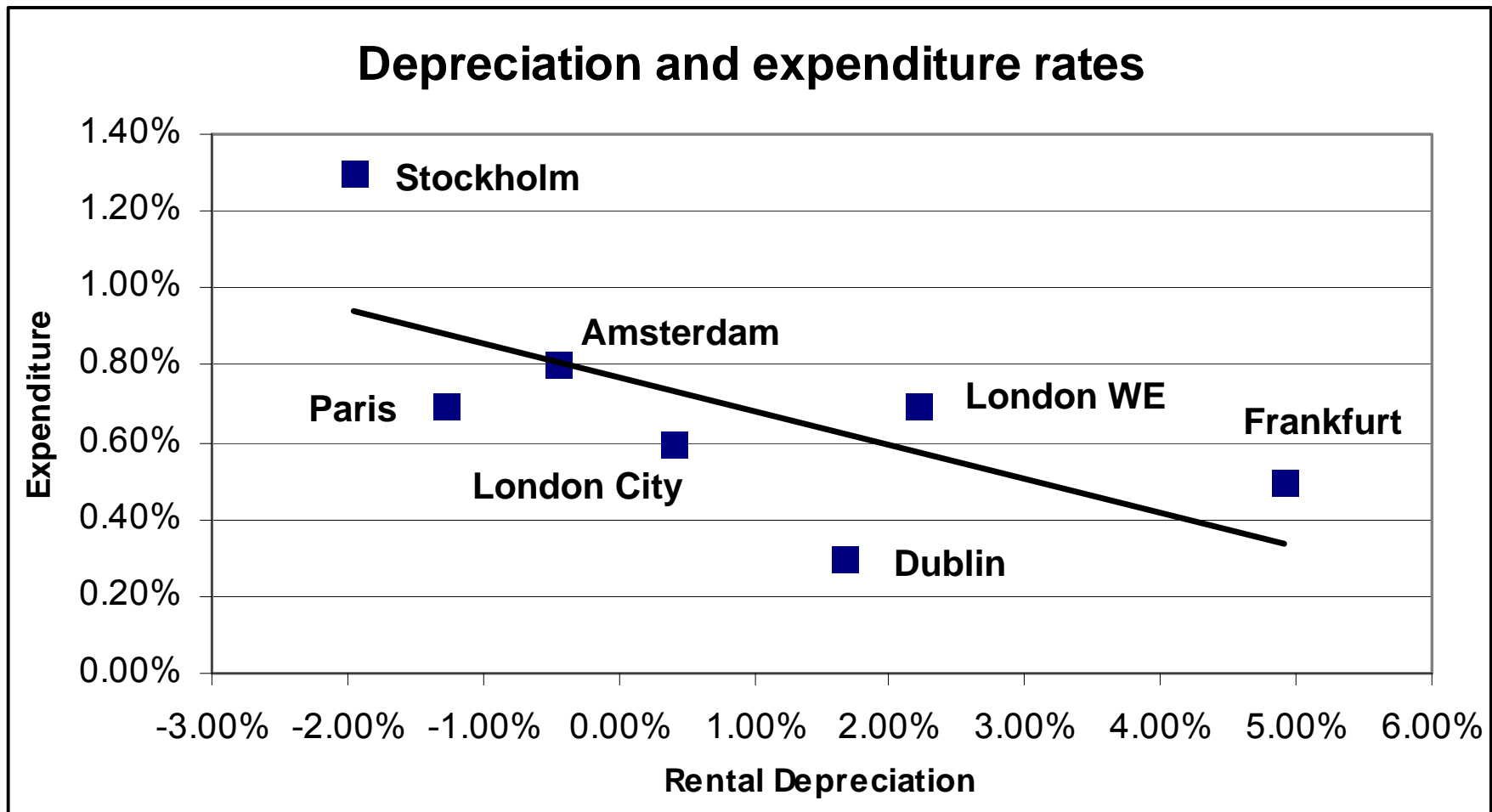- Do these two steps bring clarity to overall picture?

Results to date

	Rental Depr Rate	Capital Exp Rate	Maint. Exp Rate	Total Exp Rate
L'dn WE	2.2%	0.3%	0.4%	0.7%
L'dn City	0.4%	0.3%	0.3%	0.7%
Amsterdam	-0.4%	0.4%	0.4%	0.8%
Dublin	1.7%	0.3%	0.0%	0.3%
Frankfurt	4.9%	0.1%	0.4%	0.6%
Paris	-1.3%	0.7%	0.0%	0.7%
Stockholm	-2.0%	1.0%	0.3%	1.3%

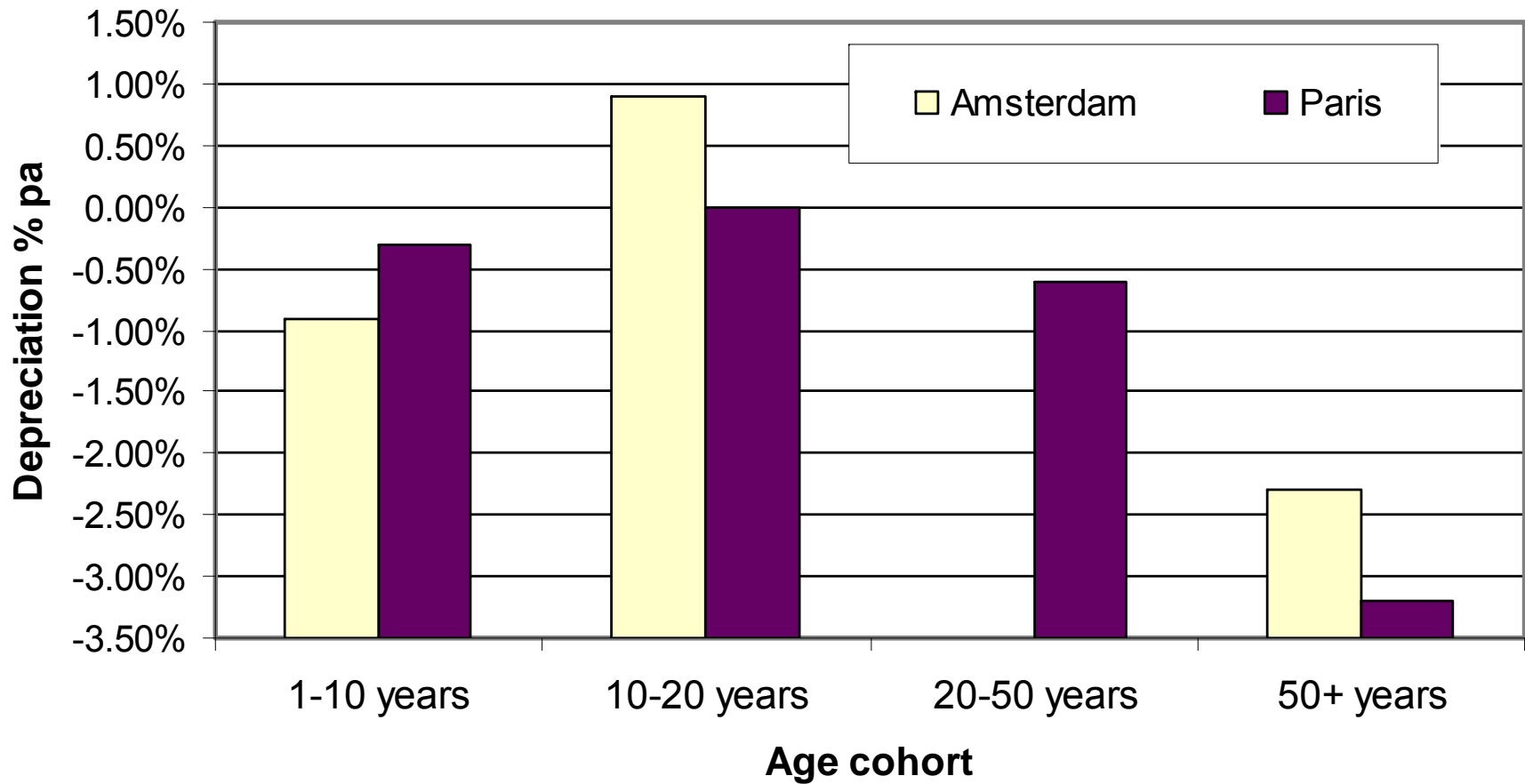# Relationship?

Depreciation and expenditure rates

Age bands

- Age results at a preliminary stage
- Experiment with 4 bands
  - 0-10 years old
  - 10-20 years old
  - 20-50 years old
  - 50+ years old
- Age of property at start of period (1997) determines age band membership

Depreciation rate patterns

What are the results really all about?

- Market state – do different market states drive different depreciation patterns – prime/secondary relationships?

- Data issues – idiosyncrasies of individual properties within each market and sub-divisions of the sample

- Different interpretations of basic valuation definitions and methods between countries and by different valuers within countries.

- Different interpretations of the benchmark rental values – are they the new property in the location built to the most modern specification or are they in some cases the best rent in that location.

Conclusions

- Some conflicting results across the different markets concerning both depreciation/appreciation rates and the behaviour of different age cohorts

- Some evidence of a negative relationship between spending and depreciation

- But study also highlights the idiosyncrasies of property assets… and property data

- Agenda for research – we want to develop questions around how prime/secondary markets behave in different market states, the patterns of depreciation and technical issues around rental value determination.

IPF Research Programme 2006-2009

The IPF would like to thank the supporters of its 2006-2009 research programme:

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