

Revisiting depreciation of commercial investment property in the UK: – Invitation to Tender

Background

Depreciation is a crucial issue for real estate investors since it impacts both returns from and pricing of assets. Causes of depreciation include physical deterioration and various forms of obsolescence, the latter arising as technological, social or regulatory changes in the economy take place. This has generated a requirement for information on the rates of depreciation and expenditure affecting different property types, which can be used to inform analysis of the role of real estate in a multi-asset portfolio, as well as investment decisions at an individual asset level.

In 2005, the IPF published a report investigating this issue entitled, 'Depreciation in Commercial Property Markets', which was updated in 2011. Since the publication of the last report, there have been extensive industry developments, particularly around sustainability practices and updated technology which may lead to a change in the depreciation rates.

Research Aims

The IPF wishes to commission a study which aims to update and build on the previous depreciation research but may adopt a different approach and a wider coverage of asset types covered. Its specific objectives are to measure the rates of rental depreciation and non-recoverable capital expenditure occurring in different sectors of the UK commercial real estate market using up-to-date sources of data, as well as the impact of depreciation on capital values.

Approach

The research will rely on asset-level data. The previous source of this data was MSCI (IPD) and the IPF has an arrangement with MSCI to make the appropriate data available to the research team. The cost of this data will not form part of the research fee. The prospective research team is welcome to use other data sources, to supplement or instead of the MSCI data. These sources should be noted in the submission proposal.

Both of the previous IPF research projects adopted a longitudinal approach to the data analysis, i.e., depreciation is measure as a relative decline in value of a group of assets over time in relation to a chosen benchmark. It is noted that other depreciation studies have utilised other methodologies, for example, a cross-sectional approach. It is expected that the research team will provide details of the approach to be adopted for this study as part of their proposal, with suitable justifications.

The research team is also expected to include a section on forward-looking capital expenditure and depreciation. ESG, legislation and changing occupier requirements have been, and will continue to be, push up capital expenditure requirements and ultimately accelerate depreciation rates. The Project Steering Group is prepared to facilitate an introduction to third-party research providers with expertise on this topic.

Scope

The research will focus on the UK. In terms of sectors, the 2011 report covered standard retail, office and industrial and it is hoped that the research, from this iteration, can be expanded to cover further sectors such as student accommodation and BtR, as well as providing analysis by quality/age.

The time period covered by the data will be largely dependent on the source used.

Outputs

The principal output will comprise a formal report (including an executive summary). The report should be structured (with % breakdown in brackets) to include:

- Introduction (5%);
- Literature Review (5%);
- Methodology (10%);
- Analysis of results (40%);
- Forward-looking analysis (30%) ; and
- Conclusion (10%).

It is expected that the Literature Review will include reference to previous IPF Depreciation studies and what has change since they were published. The report should be written in a succinct style and conclusions should be clearly practical and relevant to the real estate investment community.

In addition, the authors will be required to provide assistance with the dissemination of the research through media coverage and a commitment to present at an IPF-organised event/webinar.

Research Monitoring

Under the chairmanship of Nick Clayton (Tilstone Partners), a Project Steering Group (PSG), will act as a monitoring group to oversee the research and to provide constructive support to the appointee. The membership of the PSG will include IPF Consultant, Rachel Portlock, and other parties knowledgeable in the subject area.

The research team will be required to liaise with the IPF Consultant and CEO, Sue Forster, at regular intervals throughout the duration of the project, in addition to pre-agreed meetings between the team and the PSG during its term.

The PSG will also be responsible for approving the final Report prior to publication.

Project Duration

The findings of the research should be available for dissemination within a period of no more than six months following the appointment of the contractor.

Appointment Process

A formal proposal should be submitted by email to the IPF Consultant, Rachel Portlock (rportlock@ipf.org.uk) by close of business, Friday 1 November.

[Submission Guidelines](#) are available to download from the IPF website or may be provided on request. All research funding proposals must conform to the requirements of these Guidelines.

The IPF reserves the right not to proceed with any proposal, as well as to appoint a research team without conducting interviews.

Cost

As a guide, the typical budget the IPF sets aside for major studies of this nature is approximately £60,000 (net of VAT), excluding production and dissemination costs. This does not include the cost of the MSCI data, which the IPF has negotiated as a separate cost.