

False Economy

David Lashbrook

Company executives, who face continual pressure to control costs in all aspects of their business, may be tempted to apply that same mentality towards their corporate accommodation requirements. For example, a company that needs its own head office building may try to cut development costs by managing the construction project internally. The company may only hire an external architect and project manager for assistance. The amount of work and the size of the team required for a successful delivery is often underestimated and the implication is that senior management teams become property developers for three years instead of focusing on growing their businesses. This is hardly a desirable outcome for the company's shareholders. And the inevitable result is the late delivery and/or cost overruns at best, or an abandoned half-complete building through exhausted funding at worst.

I would define a successful real estate development as being one that is delivered on time and on budget and which achieves a positive investment outcome for the investor. This is typically only achieved through a monumental collaborative team effort between a developer, a professional team and a main contractor.

The developer leads the development and retains overall responsibility for project delivery. The developer appoints the main contractor and the project professionals who oversee the quality and efficiency of the construction work undertaken by the main contractor. The developer is also responsible for arranging finance for the project and letting vacant space. So, it is critical that any developer is (1) significantly experienced (they need to understand what works in property and what doesn't), (2) has good relationships with high quality professionals and (3) is well capitalised (because, ideally, the developer should underwrite the capital cost of the project too).

The professional team includes the project manager (who sets the project program and oversees construction and procurement to ensure that the program is achieved), the architect (who designs the building and assists tenants with the layout of each floor), quantity surveyor (controls costs), structural engineer (building strength), mechanical, electrical and plumbing engineers (lifts, heating, air conditioning, lighting, internet and bathrooms/kitchens etc), fire safety engineer, health and safety consultant and environmental consultant.

The main contractor builds the building according to the specifications that are set by the developer and professional team. The main contractor is responsible for the construction and must contract with and oversee the work performed by all the specialist sub-contractors who install components such as lighting, ceiling, flooring and partitioning.

For projects owned by the Momentum Africa Real Estate Fund, we focus on creating a blue-chip team at the outset. We are fortunate that our sister company and fellow MMI subsidiary, Eris Property Group, has a thirty-year track record of delivering real estate projects and it has the commensurate long and strong relationships with project professionals. This enables us to deliver projects on time and on or under budget, leaving us well positioned to achieve a positive investment outcome for our investors.

“
I would define a successful real estate development as being one that is delivered on time and on budget and which achieves a positive investment outcome for the investor

”

“
The developer leads the development and retains overall responsibility for project delivery

”

“
For projects owned by the Momentum Africa Real Estate Fund, we focus on creating a blue-chip team at the outset

”

Market Focus

- » Brent crude rose 0.3% after a volatile week to \$72.15 a barrel
- » US equities reached another historic high
- » Gold rose 1% after a rally last Friday
- » Strong data from the US whilst Europe disappoints

US

- » Another record high for US equities last Tuesday, buoyed mainly by technology stocks, which then flattened to give a 1.2% rise for the week
- » GDP grew by 3.2% in Q1 beating expectations. Consumer spending increased by 1.2% during the quarter which was below expectations
- » The 10 year US Treasury yield dipped just below 2.5%

UK

- » Government borrowing at its lowest level in 17 years, falling to £22.7bn in 2018/19
- » The proposed merger of Sainsbury's and ASDA supermarkets has collapsed
- » UK equities fell 0.3% on the week
- » The yield curve between 2-year and 10-year UK gilts is unlikely to steepen due to continuing uncertainty around Brexit

Europe

- » German manufacturing contracted for a fourth month with April's PMI reading coming in at 44.5. Services PMI rose to 55.6
- » French manufacturing PMI slipped into technical contraction at 49.6 for April
- » The euro fell to a two year low against the US Dollar last week over concerns of recent disappointing eurozone growth data
- » The proposed merger between Deutsche Bank and Commerzbank has been suspended with overall complexity and capital requirement costs seen as too large
- » European equities rose 0.4% on the week

Rest of the World/Asia

- » Japanese equities had a flat week rising 0.1%
- » The Bank of Japan has left interest rates unchanged and indicated that it does not plan on raising rates until early next year at the earliest
- » China's main indices declined by around 5% last week, their biggest drop since October 2018

Currency returns					
Asset class/region	Currency	Week ending 26 April	Month to date	YTD 2019	12 months
Developed markets equities					
United States	USD	1.2%	3.8%	17.8%	11.8%
United Kingdom	GBP	-0.3%	2.4%	12.0%	4.3%
Continental Europe	EUR	0.4%	4.1%	17.0%	4.8%
Japan	JPY	0.1%	1.7%	9.5%	-6.5%
Asia Pacific (ex Japan)	USD	-1.1%	1.6%	13.3%	-0.8%
Australia	AUD	2.0%	3.3%	14.6%	12.8%
Global	USD	0.7%	3.3%	16.2%	5.9%
Emerging markets equities					
Emerging Europe	USD	-1.3%	2.9%	10.9%	0.6%
Emerging Asia	USD	-1.7%	1.4%	12.7%	-3.5%
Emerging Latin America	USD	0.7%	1.3%	9.2%	-4.3%
BRICs	USD	-1.1%	1.4%	15.7%	0.2%
MENA countries	USD	0.7%	4.4%	12.8%	9.0%
South Africa	USD	-1.8%	8.8%	13.6%	-8.4%
India	USD	-0.5%	0.4%	8.3%	7.5%
Global emerging markets	USD	-1.3%	2.0%	12.1%	-3.5%
Bonds					
US Treasuries	USD	0.4%	-0.3%	1.9%	5.2%
US Treasuries (inflation protected)	USD	0.7%	0.4%	3.8%	3.8%
US Corporate (investment grade)	USD	0.4%	0.5%	5.7%	6.9%
US High Yield	USD	0.2%	1.3%	8.7%	6.7%
UK Gilts	GBP	0.5%	-1.3%	2.2%	4.4%
UK Corporate (investment grade)	GBP	0.5%	0.1%	4.7%	4.6%
Euro Government Bonds	EUR	0.2%	-0.1%	2.5%	2.3%
Euro Corporate (investment grade)	EUR	0.3%	0.7%	3.9%	3.1%
Euro High Yield	EUR	-0.2%	1.2%	6.6%	2.5%
Japanese Government	JPY	0.2%	-0.4%	1.3%	2.2%
Australian Government	AUD	1.2%	0.2%	4.3%	10.0%
Global Government Bonds	USD	0.1%	-0.7%	1.1%	0.2%
Global Bonds	USD	0.1%	-0.5%	1.8%	0.9%
Global Convertible Bonds	USD	0.1%	1.3%	7.0%	0.6%
Emerging Market Bonds	USD	-0.4%	-1.0%	5.1%	3.0%

Source: Bloomberg. Past performance is not indicative of future returns.

Currency returns					
Asset class/region	Currency	Week ending 26 April	Month to date	YTD 2019	12 months
Property					
US Property Securities	USD	1.6%	-0.2%	15.7%	19.3%
Australian Property Securities	AUD	3.5%	0.7%	14.7%	18.8%
Asia Property Securities	USD	0.4%	-3.4%	11.4%	4.8%
Global Property Securities	USD	0.8%	-1.0%	13.3%	9.2%
Currencies					
Euro	USD	-0.7%	-0.5%	-2.5%	-7.9%
UK Pound Sterling	USD	-0.5%	-0.5%	1.5%	-7.2%
Japanese Yen	USD	0.3%	-0.7%	-1.7%	-2.1%
Australian Dollar	USD	-1.4%	-0.7%	0.0%	-6.8%
South African Rand	USD	-1.9%	0.5%	0.3%	-13.4%
Swiss Franc	USD	-0.4%	-2.3%	-3.5%	-3.0%
Chinese Yuan	USD	-0.4%	-0.3%	2.2%	-5.5%
Commodities & Alternatives					
Commodities	USD	-0.7%	0.7%	9.7%	-5.0%
Agricultural Commodities	USD	-1.8%	-2.0%	-4.1%	-12.8%
Oil	USD	0.3%	5.5%	34.1%	-3.5%
Gold	USD	1.0%	-0.4%	0.5%	-2.2%
Hedge funds	USD	0.2%	0.5%	3.1%	-3.1%

Source: Bloomberg. Past performance is not indicative of future returns.

For more information, please contact:

Anastasiya Volodina

Distribution Services

E: distributionservices@momentum.co.uk

T: +44 (0)207 618 1806

Important notes

This document is only intended for use by the original recipient, either a Momentum GIM client or prospective client, and does not constitute investment advice or an offer or solicitation to buy or sell. This document is not intended for use or distribution by any person in any jurisdiction in which it is not authorised or permitted, or to anyone who would be an unlawful recipient. The original recipient is solely responsible for any actions in further distributing this document, and in doing so should be satisfied that there is no breach of local legislation or regulation. This document should not be reproduced or distributed except via original recipients acting as professional intermediaries. This document is not for distribution in the United States.

Prospective investors should take appropriate advice regarding applicable legal, taxation and exchange control regulations in countries of their citizenship, residence or domicile which may be relevant to the acquisition, holding, transfer, redemption or disposal of any investments herein solicited.

Any opinions expressed herein are those at the date this document is issued. Data, models and other statistics are sourced from our own records, unless otherwise stated. We believe that the information contained is from reliable sources, but we do not guarantee the relevance, accuracy or completeness thereof. Unless otherwise provided under UK law, Momentum GIM does not accept liability for irrelevant, inaccurate or incomplete information contained, or for the correctness of opinions expressed.

The value of investments in discretionary accounts, and the income derived, may fluctuate and it is possible that an investor may incur losses, including a loss of the principal invested. Past performance is not generally indicative of future performance. Investors whose reference currency differs from that in which the underlying assets are invested may be subject to exchange rate movements that alter the value of their investments.

Under our multi-management arrangements, we selectively appoint underlying sub-investment managers and funds to actively manage underlying asset holdings in the pursuit of achieving mandated performance objectives. Annual investment management fees are payable both to the multimanager and the manager of the underlying assets at rates contained in the offering documents of the relevant portfolios (and may involve performance fees where expressly indicated therein).

Momentum Global Investment Management (Company Registration No. 3733094) has its registered office at The Rex Building, 62 Queen Street, EC4R 1EB. Momentum Global Investment Management Limited is authorised and regulated by the Financial Conduct Authority in the United Kingdom and is an authorised Financial Services Provider pursuant to the Financial Advisory and Intermediary Services Act 37 of 2002 in South Africa.

© Momentum Global Investment Management Limited 2019.