

The International Property Securities Exchange



July 2020

Introduction to IPSX

New regulated exchange dedicated to Real Estate securities

The International Property Securities Exchange (IPSX) is a new regulated stock exchange that will enable investors to trade shares in the owners/managers of single buildings or homogeneous, discrete property portfolios.

We have set out a brief introduction to the exchange and its structure, and an overview of why we believe IPSX has the potential to attract multiple listed entities and strong interest from both professional and retail investors.

Equity Development is organising a webinar with IPSX later this month, at which its Executive Management will set out the rationale for the new exchange (please notify us of your interest to attend [here](#)).

That presentation will discuss the new market's prospects, operational logistics and competitive positioning. We believe that IPSX provides investors with direct access to a core investment category in a way that will enable them to determine the balance of their own investment portfolios with far more transparency than ever before.

Summary

In 2019 IPSX was granted recognition by the Financial Conduct Authority to operate in the UK as a Recognised Investment Exchange, providing both real estate owners and investors with the protection of a regulated market.

Investors will be able to invest in listed companies that own individual real estate assets. For practical reasons (mainly sheer scale) this option has previously been only accessible to institutions and sovereign wealth funds.

- Buying and selling shares in IPSX listed companies will be as straightforward as it is on other exchanges. Market makers will provide two-way pricing during market hours, orders will be placed via stockbrokers or retail share trading platforms. Shares listed on IPSX will be ISA and SIPP eligible.
- Expense ratios should be below other listed real estate investment vehicles including REITs, developers, and mutual funds, many of which must also absorb costs related to management of large, multi-sector portfolios. That should benefit investor returns and equity ratings. Charges to invest in IPSX equities will also be materially below the equivalent for direct asset purchases.
- Asset transparency will be underpinned by six monthly external RICS valuations, which should support equity values. The more sector-focused listed real estate companies, such as specialist REITs, tend to trade close to or above NAV, whereas generalists can often experience wide discounts. We thus expect single asset entities to benefit from investor appetite for focus.



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IPSX

In 2019 IPSX was granted Recognition by the Financial Conduct Authority to operate in the UK as a Recognised Investment Exchange, providing both real estate owners and investors with the protection of a regulated market.

IPSX is the world's first regulated securities exchange dedicated to the initial public offering and secondary market trading of companies which own single, institutional grade real estate assets and multiple assets with commonality.

This represents a genuine innovation for investors in UK real estate, one of four mainstream asset classes defined by market size and investment returns. Provision of a regulated public market in single asset company equities with clear rules and standards complements investment choices currently available.

IPSX plans to encourage the evolution of the public market and build investor participation via enhancing transparency and transaction volume. Significantly, the market's structure conveys advantages for **both issuers/vendors and investors**.

- It gives asset owners access to an alternative capital markets product, which should expand the universe of potential investors.
- Investors seeking direct access to commercial property via a regulated public market should be attracted by robust market operational logistics, speed of execution and real time valuations.

IPSX - Broader Access to Direct Real Estate Investment

Direct investment into real estate assets has only been possible for a small proportion of the investor universe



Source: IPSX

Market structure

IPSX operates two markets:

- **IPSX Prime** admits to trading issuers owning underlying single commercial real estate assets or multiple assets with a sufficient degree of commonality.

IPSX Prime is an equity market for owners of commercial real estate. It will provide a close proxy for direct investment in institutional class assets and enable investment decisions based upon more transparent criteria. The current intention is to launch the first IPSX IPOs this Autumn.
- **IPSX Wholesale** is exclusively for institutional investors. Whilst IPSX Wholesale and IPSX Prime issuers share the same broad features, the types of issuers eligible for admission to IPSX Wholesale could include more complex ownership structures and legal arrangements, or more unusual tenancy arrangements. This could include trading JV REITs.

Guidelines for potential issuers

The first IPO is currently anticipated to take place this Autumn. IPSX expects underlying property assets to be of institutional grade, with market values between £50m and £1bn, and an average range of £150-350m.

Admission to the IPSX Prime market will be subject to compliance with the following criteria:

- All companies must satisfy IPSX's Admission and Disclosure Standards, and issue a prospectus for approval by the Financial Conduct Authority
- A minimum of 25% of the underlying company's shares will be available to external investors at admission
- Companies must appoint an IPSX Market Maker and an IPSX Approved Valuer to undertake initial and subsequent six-monthly valuations of all property assets
- Leverage in the listed entity must not exceed 40%
- Accounts must be audited

In common with any PLC, IPSX listed entities will appoint a Board of Directors responsible for managing the company for the benefit of its shareholders. The Board will appoint a firm with the requisite expertise to undertake the day-to-day asset management, collect rent, renew leases, carry out refurbishments.

Rationale: Benefits for asset owners and investors

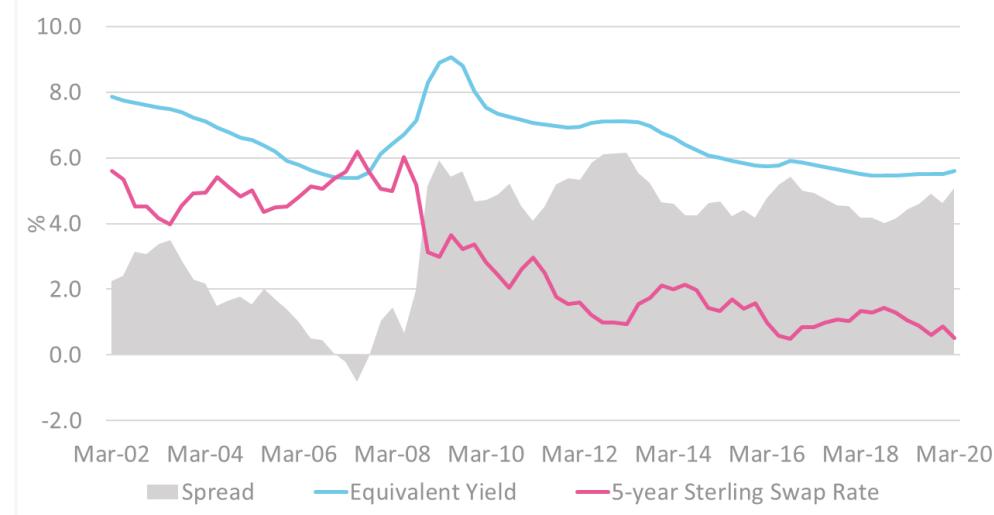
We regard IPSX as a logical component of an ongoing, evolutionary real estate market structure, which gives shareholders a new way to achieve closer correlation with underlying asset returns.

Direct ownership of Grade A commercial property is currently only feasible for large institutions, sovereign wealth, and private equity funds. Such investment is effectively out of the reach of most retail investors and the inherent illiquidity and financial commitment required makes it difficult even for mid-sized funds to achieve realistic diversification. There are other direct costs such as Stamp Duty Land Tax (SDLT) on acquisitions above £150,000 and charges by external asset managers.

Smaller investors attempt to replicate this via quoted property companies, funds and OEICs. These are a proxy for the underlying exposure, provide limited transparency on the performance of individual assets, and add the risk that management teams' strategy will change over time.

IPSX will provide a means for investors to build and balance their own portfolios more definitively, and similarly, reduce inadvertent exposure to unrelated sectors or strategies. That should enable access to an ongoing attractive spread between rental and bond yields.

Property vs bond yields



Source: RES calculation, MSCI, Refinitiv

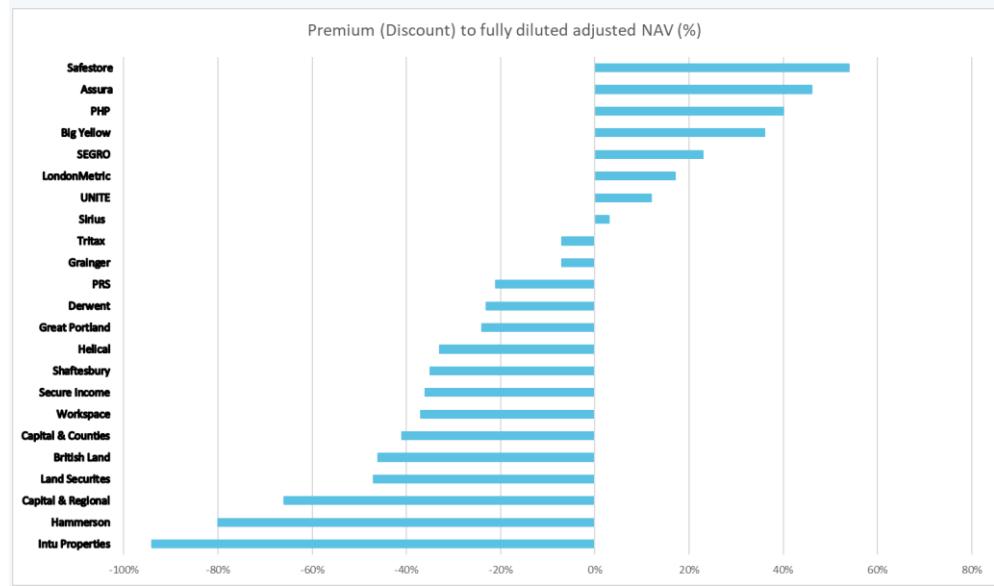
The market structure should also generate the necessary liquidity via its broad appeal to a wide variety of investors.

- This is important for both market liquidity and efficiency at the different points in the real estate market cycle. Distinct categories of investor operate different investment strategies, time horizons and portfolio scale.
- IPSX anticipates that its market structure will appeal to family offices, including those outside the UK, which have a declared interest in alternative investments, including holding physical property. That provides potential for IPSX listed entities to attract both new funds and divert existing investment away from alternative real estate vehicles.

Equity valuation to reflect investor preference for focus

Shares in IPSX listed entities are expected to trade at values akin to sector focused REITs i.e. close to, or above NAV. Property entities trading below NAV generally have broader, mixed portfolios and development strategies. In more recent times, those portfolios often also have had a bias to retail tenants.

Valuations based upon predictable cashflows



Source: Research, Analyst estimates (Panmure Gordon) as at 15/6/20

All IPSX listed PLCs will be traded on the exchange. Market makers will be responsible for live prices available while the market is open. Core assets will be valued by an IPSX approved valuer at IPO on a RICS Redbook basis, and thereafter at six-month intervals. The IPSX list of approved valuers includes global valuation experts CBRE, JLL, Cushman & Wakefield, Avison Young and Knight Frank.

Reduced expenses, provides another important distinction

We regard reduced operating costs as a clear attraction for IPSX listed entities. Although the company and building will still be professionally managed, the scope of decisions made by those teams, and related expenses will be confined to the performance of the specific asset. Operating margins should thus be above the average for LSE listed entities.

We expect that benefit to be shared with external shareholders.

Conclusion

The IPSX Prime market's formal launch is scheduled for this Autumn, via its initial IPO.

We believe that companies listed on its exchange should have broad appeal to professional and retail investors with an interest in this asset class. They will provide a way to achieve fractional ownership of institutional grade properties with distinct risk profiles, lower volatility than less focused pooled investment vehicles listed on generalist exchanges, better liquidity than direct investments and OEICs, and limited correlation with other components of their portfolios.

We also expect investors will appreciate the benefits of transaction costs below those for direct investment (where accessible to them), and materially lower expenses ratios vs equivalent listed REIT peers. This should be reflected in net shareholder returns and relative equity valuations.

For most audiences, the final proof awaits demonstration of the IPSX market's efficient functioning, delivery of real-time share prices and ability to buy and sell shares without difficulty.

However, we believe that the design of the IPSX regulated trading environment, transparent asset valuation methodology and the advantages of lower cost offer for both property owners and prospective shareholders address many shortcomings inherent in other existing and proposed real estate investment structures.



Investor Access

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