

## 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.

## The Marketplace

- 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

## Market Focus

### 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

- 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

Asset Class/Region	Currency	Currency returns			
		Week ending 26 Apr. 2019	Month to date	YTD 2019	12 months
<b>Developed Market Equities</b>					
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%
<b>Emerging markets equities</b>					
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%
<b>Bonds</b>					
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%

Asset Class/Region	Currency	Currency returns			
		Week ending 26 Apr. 2019	Month to date	YTD 2019	12 months
<b>Property</b>					
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%
<b>Currencies</b>					
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%
<b>Commodities &amp; Alternatives</b>					
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%

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