

#### **Economic overview**

The 'two-speed' nature of economic growth is still evident.

#### **Property overview**

Property is on course to produce double-digit returns in 2002.

#### **Office**

The sector continues to lag behind in performance terms.

#### **Retail**

Retail warehouses offer strong performance prospects.

#### **Industrial**

Despite a manufacturing recession, rental growth remains positive.

#### **Leisure**

Liberalisation of gaming legislation offers the prospect of increased tenant activity.

Property Investment  
Market

Autumn 2002

# inv**brief**



**GeraldEve**

# Summary

“Retail warehouse and provincial office markets provide the best prospects for short-term rental growth”

## Property

Property is on track to produce double-digit returns in 2002 as capital growth has grown strongly in recent months. It remains the top-performing asset over twelve months.

The market continues to be characterised by a disjunction between investor and occupier activity. The third quarter saw substantial levels of net investment into property but no rental growth.

Capital growth remains based upon the fundability of property, as finance rates remain low, and also uncertainty in other assets, such as equities and corporate bonds.

Geared investors continue to enjoy a benign funding environment. This is reflected in aggressive bidding at auctions.

## Office

Despite a weak occupier market, prime yields remain steady in the Central London market.

In contrast with South Eastern markets, provincial centres are seeing reasonable prospects of rental growth in the short term. The provincial market is currently alone in offering double-digit returns.

## Retail

This sector has experienced the sharpest capital growth as a result of an inward yield shift.

The retail warehouse sector is forecast to outperform all others in 2002 and next year. It has seen substantial capital inflows in the first three quarters of 2002, which have already exceeded last year's total.

## Industrial

Despite a continued recession in manufacturing and patchy tenant demand, rental growth remains positive.

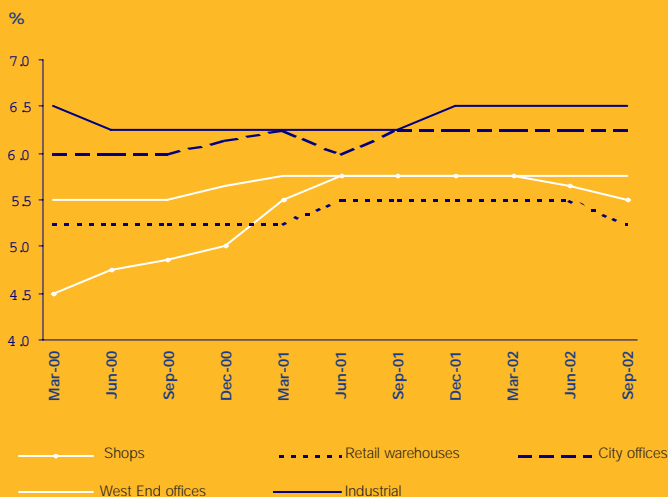
Struggling manufacturing operations are selling off property assets which are providing re-development opportunities.

## Leisure

Operators in the health and fitness sector are experiencing a period of consolidation.

## Prime property yields

Source: Gerald Eve



# Economy

## Growth picks up in 2003

UK GDP growth picked up in the second quarter of the year, to 0.6%, after four quarters of weakness. Over twelve months, growth stood at 1.2% with Business Strategies forecasting a relatively modest rate of 1.4% by the year-end. Next year, growth of 2.4% is forecast, which is near the long-term trend rate.

With a downturn in the investment banking cycle, London's economic growth is lagging behind the national rate. This year, growth is forecast by Business Strategies to reach just 0.8%.

## Manufacturing weakness

The 'two-speed' economy appears to be reappearing with a steady performance from the service sector, whilst manufacturing stuttered, quashing hopes of a recovery in the third quarter.

Manufacturing sector output declined by 1.7% in the three months to August, which was the weakest performance since January. It remains beset by cost pressures and weak demand from Europe. This resulted in the worst monthly trade deficit for nearly three and a half years in August. Nevertheless next year, Business Strategies forecast positive output growth, at 1.7%, up from a 2002 forecast of -3.8%.

## Service sector resilience

Business volumes in the financial services sector are reported to be significantly above levels seen at the turn of the year and a modest improvement in trading conditions is expected by the CBI in the final quarter of the year. Business investment has fallen by 10.8% in year to June to its lowest level for five years, although the quarterly rate was only marginally negative. Inevitably, this has adversely affected the demand for commercial property space. After a third quarter of equity market weakness, corporate investment levels are likely to experience only a modest turnaround next year, with Business Strategies forecasting 1.4% growth in 2003.

One of the most vivid indications of the persistence of the 'two-speed' economy is revealed by corporate profitability data. The service sector's net rate of return stood at 14.1% in the second quarter, compared to 4% for manufacturing.

The corporate sector weakness and low inflation have resulted in 11 successive months of base rate stability. A rate cut is still regarded as possible if the Bank of England forecasts the inflation rate two years hence dropping below the long term target of 2.5%. Underlying inflation stood at 2.1% in September, with little to suggest short-term

increases. Indeed, the Monetary Policy Committee has undershot the 2.5% target rate of inflation for all but one month since March 1998.

A recovery in GDP growth should prompt a tightening of monetary policy by the end of 2003 with Business Strategies forecasting a bank base rate of 4.5%.

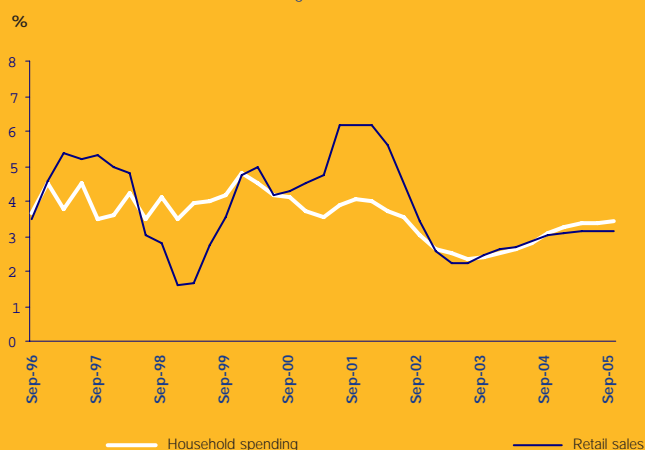
*"The 'two-speed' nature of economic growth persists"*

## Consumer sector

Although retail sales volume remains buoyant, the consumer sector is forecast to weaken next year. Growth in household spending and retail sales are set to drop as an anticipated tightening of monetary policy affects the consumer. House price growth is also forecast to fall to more sustainable rates, which should slow the amount of funds made available via mortgage equity withdrawal. The first signs of a slowdown may have emerged in August as consumer borrowing for house purchase and personal loans fell.

## Twelve-month growth in retail sales & household spending

Source: National Statistics, Business Strategies



# Property

## Property outperforms

Property produced 12-month returns of 9.9% in September, out-performing gilts (9.1%), whilst equities are bumping along a trough in terms of recent performance, at -20.8%, according to the IPD Monthly Index. Property's annualised total return in the third quarter was 12%.

Gilt yields fell to 4.4%, which is the second lowest figure since the aftermath of the international finance crisis in autumn 1998. With current investor uncertainty, the asset is viewed as a safe haven.

“Capital growth has surged ahead of rental growth in the past six months”

The downward pressure on gilt yields resulted in the gap at which it stands relative to property widening to 2.6 percentage points in September.

## What drives performance?

The occupier market remains subdued with no rental growth in the quarter to September. Nevertheless, equivalent

yields have fallen from 8.6% to 8.4% in the 6 months to September. The weight of money into property has resulted in capital growth exceeding rental growth by a considerable amount. The last time such a gap occurred was in 1994, when property was perceived to be under-priced after capital values plunged in the early nineties turmoil. The current gap between capital and rental growth rates is largely based on non-property factors as finance rates are low and expected future performance of other assets, such as equities and corporate bonds, remains uncertain.

## Investor survey

Multi-asset investors continue to hold large cash positions but property is being seen in a more favourable light. The 2002 Greenwich Associate's survey of over 400 UK pension schemes reported expectations of an increase in property portfolio allocations from 85 respondents, with only 30 expecting a decrease. By contrast, only 35 reported an expectation of increased equity portfolio weightings, whilst 150 expected a decrease.

## Corporate sales

The strength of investor demand combined with weakening balance sheets has prompted the trend of corporate divestment of property assets which are surplus to operational needs. Marconi have disposed of over £87m

worth of property assets in a series of portfolio deals over the past year, in preference to sale and leaseback deals. In September, Corus announced plans to sell part of its Llanwern site near Newport to a consortium of developers. This follows the company's sale of two portfolios of surplus properties to Threadneedle and a private investor for £48m in July. Other industrial groups such as Rolls Royce and Invensys are rumoured to be planning disposals of property assets at sites which provide attractive redevelopment opportunities.

## Net investment

National Statistics reported net UK institutional disinvestment in commercial property of £517m in the second quarter. Though institutional funds are taking advantage of strong debt-backed investor demand to realise profits, we believe a more accurate reflection of market activity is provided by Property Data. It monitored transactions totalling £2.7bn in the third quarter and reported UK institutional net investment of £630m and £360m in the second and third quarters respectively. The closure of stamp duty loopholes in July may have concentrated activity in the second quarter at the expense of the third. Across all investor groups, total net investment in the third quarter was £134m, down from £199m in June, according to Property Data.

## Three month annualised growth

Source: IPD



Investment turnover increased from £10.8bn in the second quarter to £11.1bn in the third. These figures look set to remain high in the final quarter as a large amount of stock is being bought to the market, most noticeably in the Central London office and national shopping centre markets.

Overseas net investment stood at £0.4bn in the third quarter, its highest level for a year. Capital inflows into German open-ended funds reached 10.1bn euros in the first half of the year, exceeding the total inflow for 2001. The UK market has benefited from regulations which stipulate that open-ended funds must invest at least 50% of their inflows into property.

#### Geared investors

Debt-backed buyers continue to experience a favourable financing environment. The five-year swap rate has fallen from 5.3% in June to 4.7% in October, which is 2.3 percentage points below the property yield. One of the most direct consequences of the low finance rates is the buoyancy of the auctions market where yields are at their lowest levels ever. ARAS reported average auction yields falling by 28 basis points to 7.9% in the third quarter. Auction houses are also reporting sharp increases in average lot sizes as institutional funds increasingly employ this market to dispose of smaller units.

Bank lending to property companies increased by 3.6% in the second quarter and stood at £76.9bn, according to the Bank of England. The quarterly rate was the slowest since the second quarter of 2000, indicating a degree of lender caution in the face of a weakening tenant market.

#### Lease code

The Code of Practice for Commercial Leases was introduced in April, with little uptake so far reported. According to the British Property Federation, only 9% of lease agreements have incorporated alternatives to upward-only rent reviews. Surprisingly, occupiers have not been actively demanding lease terms in compliance with the Code. So far, the main point of contention is that when shorter lease lengths are offered by landlords, occupiers are complaining of a steep increase in initial rental costs.

A higher initial rent is the landlord's compensation for adopting a higher risk in terms of income security and asset depreciation. Income flow is threatened by an increased void risk if shorter leases are agreed. Also, the landlord is typically able to pass depreciation risk onto the tenant for longer term leases.

Shorter lease terms present the opportunity to demonstrate more evidence of lettings at open market levels. In a rising market, this results in

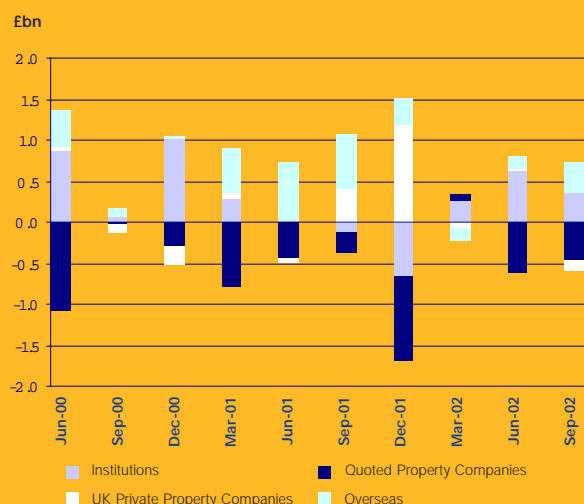
higher rents, both for new leases and during rent reviews. However, this is a double-edged sword, as periods of declining rental values will expose the income stream to downside risk.

*“The recently introduced lease code has not yet been widely adopted”*

The impact of a more flexible system in terms of lease duration will depend upon property type and location. Prime shops in strong centres will require less rental and yield adjustments for a shorter lease than an ageing office building where a longer lease let to a strong covenant will be of particular value to the landlord. Hence, capital values for secondary stock may be more adversely affected than prime by the introduction of lease flexibility.

#### Net Investment

Source: Property Data



# Office

## Performance lags behind other sectors

The sector has registered negative rental growth on a quarterly basis throughout 2002. Annualised total returns in the third quarter stood at 7.4%, according to the IPD Monthly Index.

## West End

Vacancy rates are approaching 10% as a consequence of weak tenant demand rather than over-supply of space. This is still some way off the peak rate reached in 1992, at just over 15%. However, sub-letting space continues to be the most practicable strategy for many occupiers.

“The office sector continues to under-perform retail and industrial”

Despite the weakening tenancy market, prime rents stabilised in the third quarter as incentive packages became more generous. The third quarter average prime asking rents stood at £59 per sq ft, according to EGI, up from £57.50 per sq ft in the second quarter. On a 15-year lease, rent-free periods of 12-24 months are now the market norm, compared to 3-6 months two years ago.

The investment market continues to be driven by private investors who are seeking well-secured income streams with unexpired terms of at least 10 years. The weight of money chasing these deals is quite considerable. An example is 11 Belgrave Road, SW1, with an unexpired term of 19 years let to the Department of Transport, which was offered to the market at an initial yield of 6.75%, but sold for 6.2%.

Institutional funds, such as Threadneedle, Standard Life and Britannic Asset Management are disposing of space to take advantage of the strength of demand from debt-backed and foreign investors. The decline in equity values and consequent rise in property portfolio weightings continues to affect institutional funds' disposal strategies. This is exemplified by British Airways Pension Fund's recent decision to market its half share in Berkeley Square House, W1 at an asking price of £140m. The price reflects an initial yield of just 4.5%.

Demand for active management opportunities weakened over the third quarter but prime yields remain unchanged at 5.75%.

## City

The vacancy rate is rising and stood at 8.5% at the end of the third quarter, though the figure is well below that seen

in the early nineties when it climbed to just under 20%. However, it is expected to rise further over subsequent months as surplus space is released. Pressure is being applied to landlords in terms of lease terms and incentives. Headline prime rent levels will be subjected to severe downward pressure in the short term.

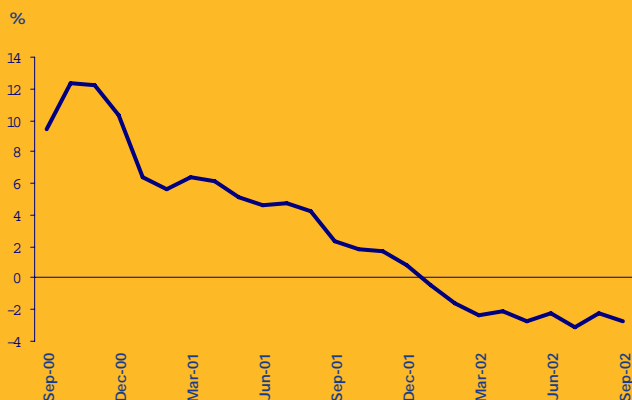
Increasingly the initial yield is the prime value determinant for private buyers who are typically less sophisticated than institutional investors. The ungeared internal rate of return shown by some of these investments is such that institutions (who typically cannot raise debt on acquisitions) are unable or unwilling to compete.

There is a very limited market for stock with unexpired lease terms of 5 to 10 years, particularly where there are existing or imminent void periods. Consequently, yields on such stock are set to weaken.

Prime yields still seem to be holding firm at around 6.25% for the City, although evidence is limited. Nonetheless, despite the loss of stamp duty saving schemes, we believe that yields will hold firm as the environment for debt-funded investors remains benign.

## Three-month annualised office rental growth

Source: IPD



### Thames Valley

In the Thames Valley, there is now nearly double the amount of vacant space available on the market compared to the end of 2001. Consequently, quoting rents across several locations have dropped by up to 15% with average prime levels below £25 per sq ft. Whilst take-up levels have revived in the second quarter, activity is concentrated upon lease expiries or corporate consolidations from existing tenants. Little growth in rents can be expected before late 2004.

Institutional investors have withdrawn from the market but private investors continue to ensure that yields on prime property have not weakened. In Chertsey, an investor syndicate acquired Aymer House for £20.3m reflecting a yield of 6.5%.

### Provincial

The provincial market is less exposed to the downturn in financial services sector. Consequently, take-up levels across 20 provincial centres have remained healthy with six-monthly rates to July up 21% compared to the equivalent period last year, according to ATIS Real Weatheralls. This is in marked contrast to markets in the South East. Pre-let activity on new buildings remains a feature of many markets. In Birmingham, rent levels are now surpassing those seen in the Thames

Valley, at £27.50 per sq ft. The dearth of supply for units of 100,000 sq ft has resulted in expected asking rents of £30 per sq ft at the proposed Snow Hill development scheme in the town centre. Edinburgh is the only other provincial town which commands comparable rents. However, there is a significant amount of prime space, which is due for imminent completion in the Scottish capital and demand has weakened. In response, developers are considering postponing schemes, which had been due to start in the next 6 to 12 months.

The lack of new supply of Grade A space in many provincial markets is illustrated by Bristol. The rental high of £22.50 per sq ft is about to be broken, as space at George's Square is now under offer at £23.50 per sq ft. Furthermore, the quoting rent at Temple Circus is likely to be £25 per sq ft. The area also illustrates the potential for development schemes located in close proximity to new motorways. The recently opened, £11m Brook Office Park on the city's ring road is reporting strong occupier interest.

Investment levels in the regional office market have been rising in 2002. Property Data report an inflow of £2.4bn in the third quarter, compared to £1.1bn in the equivalent period last year. Subsequently, provincial (excluding

Scotland) office capital growth has out-paced Central London and the South East recently, according to IPD. It is now the only market currently offering double-digit total returns.

## "Provincial office markets offer relatively strong performance"

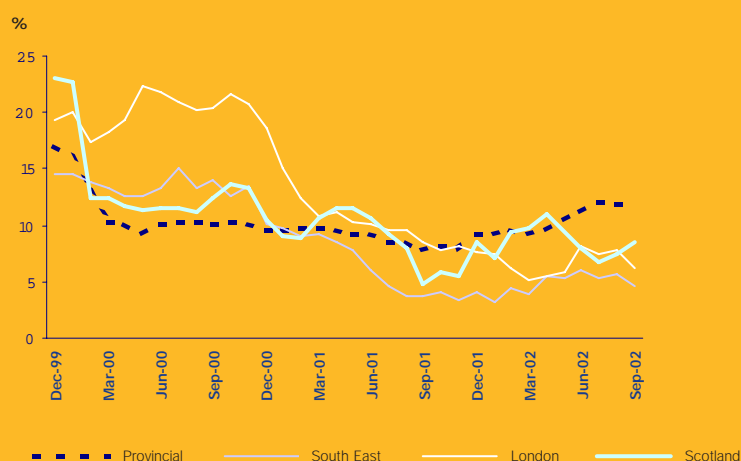
An illustration of the growing demand for provincial office stock from overseas investors was provided by the intensely competitive bidding for 55 Colmore Row in Birmingham. It was eventually acquired by the German open-ended fund, iii Fonds, for £45m, reflecting an initial yield of 6.7%. Yields are heavily dependent on unexpired lease length with 6.5% achievable for those offering 15 years or more, rising to 8.5% where there is 5 years to lease expiry. Stock shortages may inhibit further capital inflows into this market as there is little speculative development taking place.

### Outlook

Market fundamentals in many provincial centres outside the South East offer short-term rental growth prospects. Despite the weakening lettings market, yields are not weakening, even in the Thames Valley.

### Three-month annualised total returns

Source: IPD



# Retail

## High street occupiers

Annualised rental growth slipped to 1.8% in the third quarter, down from 3.1% in the second, according to the IPD Monthly Index. Prospects for high street rental growth remain subdued as retailers' costs rose by 1.8% in the year to July. Price deflation has reappeared in recent months for high street retailers with the August figure at -0.2%. Consequently, profit margins are estimated to be shrinking by 3.8% in the year to July. Weakening consumer demand will add to the pressure in 2003. This is undermining the performance of prime retail centres relative to the lower-rented locations.

## "Occupier cost-sensitivity will restrain rental growth"

Generally, there is a shortage of stock, which restricts retailers' ability to expand their brand representation. Consequently, six-figure premia payments are still being offered as retailer demand for units of over 10,000 sq ft shows no sign of weakening. On Oxford Street, rents moved up to £475 per sq ft after three years unchanged at £450 per sq ft.

As fashion retailers withdraw from the market for sub-10,000 sq ft units, food stores are taking up such space. Sainsbury's are looking to acquire two sites on Oxford Street, where it is willing to pay a premium of over £750,000 for a 7,000 sq ft store. Marks and Spencer, Tesco and Safeway are also looking for sites in the West End. The demand will provide a degree of support for rental values in secondary Central London locations, just as coffee bar expansion has been doing. However, the degree to which such retailers can support the market is questionable. The coffee bar operators have now passed the growth phase and some, for example Coffee Republic, are disposing of stores.

Value retailers, such as Primark, remain acquisitive. This trend is expected to continue as Verdict forecast that discounters' share of the total spend will increase from a current figure of 10%, to 15% within five years.

## Off the high street

Retail warehouse rental growth continues to out-pace rates on the high street. In the retail warehouse sector, B&Q's new style two-storey outlet in Sutton has exceeded trading expectations since its opening in March. A second outlet on two floors is now planned for New Malden. The opportunity for landlords to asset

manage their properties as a result of corporate rationalisation is pushing rental growth upwards. At Pipp's Hill Retail Park, Basildon, Hermes took back a Courts unit and relet it at £21.50 per sq ft, a record rent for the local out-of-town market.

The £300m Festival Place shopping centre opened in Basingstoke in October. At 850,000 sq ft, it is the only major new shopping centre to open this year. Letting activity has been strong, especially in the scheme's leisure element.

## Investor interest

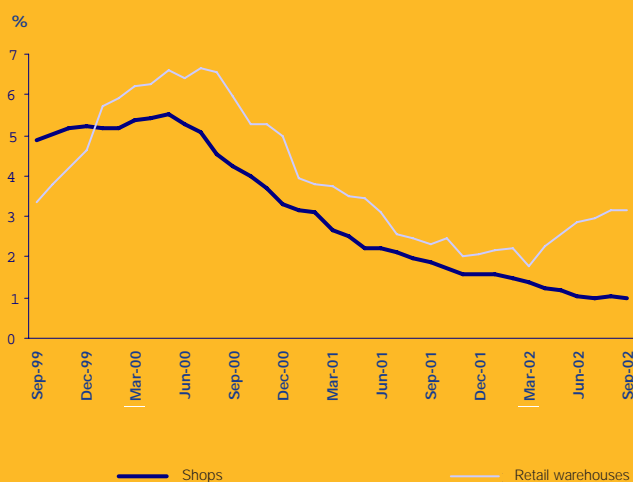
Institutional interest for high street stock continues, as the prime yield moved from 5.65% to 5.5% in the third quarter. Bond Street in Central London has seen ten buildings change hands this year at yields of 4%. However, the lack of suitable product remains a problem for buyers of stock above £10m.

In the sub-£10m market, private investors and smaller property companies are bidding aggressively for stock. In Manchester, two units on Market Street have seen sub-6% yields. In the auctions market, ARAS reports retail yields of 7.8% in the third quarter, down from 8.7% twelve months earlier.

The boost to capital growth from inward yield movements has been most

## Twelve-month rental growth

Source: IPD



pronounced in the retail sector. This has pushed annualised total returns in the quarter to September to 16%. We expect the positive effect this year to wane in 2003. The longevity of income offered by retail stock has attracted strong demand from debt-backed investors. With interest rates set to rise next year and a weakening consumer sector, pricing should become less aggressive.

#### Retail warehouse investment

The sector is unique in offering reasonable short-term rental growth prospects, although secondary stock does suffer from a degree of occupier inactivity. The development pipeline is constrained into the medium term by planning policy guidelines. Space under construction in June 2002 was only 1.7m sq ft, according to CB Hillier Parker, which is less than half the levels seen in 1996.

The prime yield moved inwards to 5.25% over the last quarter as investor demand continues to be strongest for retail warehouses. Few rack-rented retail parks now sell for yields of more than 7%. The market for large retail parks continues to see aggressive bidding. A notable example was Henderson Global Investors, who traditionally focus upon high-yielding stock, but acquired Kew Retail Park for £34m reflecting an initial yield of just

3.85%. It is let on minimum unexpired lease terms of 15 years. Smaller funds and property companies focus on less prime stock with potential to add value by refurbishments or active management. Debt-financed purchasers have also acquired smaller parks and solus units.

In the market for solus units, institutions are looking to acquire in South Eastern locations. Elsewhere demand is more limited, buyers are mainly private investors and debt-financed purchasers.

The retail warehouse annualised total return in the three months to September stood at 16.9%, up from 8.6% in March. The sector is forecast to out-perform all others both this year and in 2003.

#### Shopping centre investment

Shopping centre investment activity has been very active. The Lend Lease Retail Partnership, whose interests include Bluewater and Touchwood shopping centres, raised £80m from ten new investors, who paid a 4% premium to valuation.

Demand for high-yielding centres with active management potential remains strong. Yields for this stock have improved by up to one percentage point over the past year, and now stand at close to 7%. This move has been prompted by low borrowing costs.

Many landlords have decided to take advantage of the strong demand by bringing stock to the market. For example, the Charterhouse Shopping Centre Fund, which is valued at £307m reflecting an initial yield of close to 7%.

## “Retail warehouses are set to outperform in 2003”

#### Investment activity

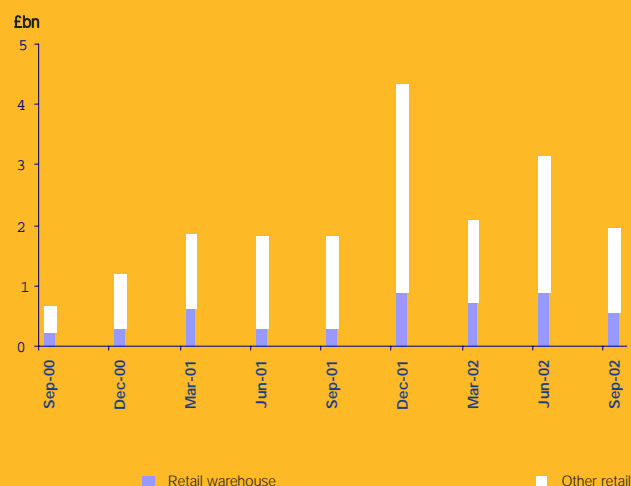
Retail investment in the third quarter stood at £1.4bn, according to Property Data. Of this total, 30% was accounted for by the retail warehouse sector. For the first time, retail warehouses accounted for a larger proportion of the IPD retail portfolio by value than high street shops at the end of last year. We expect this trend to continue as the level of investment in retail warehouses in the first three quarters of 2002 (£2.2bn) has already surpassed that seen in 2001 (£2.1bn).

#### Outlook

Rental growth will remain subdued on the high street, although there is an ongoing demand for well-configured units. Investors may struggle to continue paying aggressive prices for stock if interest rates rise next year.

### Retail investment activity

Source: Property Data



# Industrial

## Occupiers

Despite the manufacturing recession and increase in the amount of secondhand space, industrial property has not suffered a downturn in rents like that seen in the office sector. Annualised rental growth in the three months to September stood at 1%, according to the IPD Monthly Index. The relatively low level of new-build development may partially explain this difference. However, as in the office sector, landlords have been forced to offer shorter lease terms to protect headline rents.

“Tenant demand remains patchy in terms of location and unit size”

Occupier demand varies markedly by geographical area and unit size with areas reliant on the service sector remaining resilient. For example, in the South East, King Sturge report that the June vacancy rate stood at 4.4%, which is almost unchanged from 4.3% in December 2001.

Nevertheless, occupier demand for mid-sized units of 50,000-100,000 sq ft is weakening at the moment, even around the M25. This size is often too big for local occupiers and too small for distributors.

The size requirements for the distribution sector continue to increase. Despite the strong demand for space from third party logistics operators, profit margins are tight, as they operate in a very competitive environment.

Nevertheless, developers are bidding aggressively to acquire land to meet demand from distributors, which is resulting in land price increases. Following on from the £23m acquisition of a Hemel Hempstead site for a 340,000 sq ft speculative scheme, Prologis beat 10 rivals recently by paying £600,000 per acre in Barking. It plans to speculatively develop a 250,000 sq ft unit on the site, previously occupied by a traditional manufacturer, which illustrates the wider trend mentioned earlier in the context of corporate disposals of space.

In Guildford, Land Securities continues to enjoy success on its Cobbett Park scheme. It has secured two pre-lets, one from car showroom operator, Colborne Garages, who took a unit at £10 per sq ft with a four-month rent-free period on a 25-year lease.

## Investment

Annualised total returns stood at 10.7% in September. The strength of investor interest in industrial stock indicates the widespread desire for a secure income stream rather than rental growth. In manufacturing areas, stock is being offered via sale and leaseback deals as occupiers take advantage of investor demand to reduce onerous property liabilities.

In the South East, Brixton paid £46.5m for the Haslemere Heathrow Estate, near Heathrow airport. The price reflected a yield of 5.6%. In the north, the demand for multi-let units was illustrated by the sale of the Metroplex Business Park, Salford Quays, Manchester at 8% above the asking price, reflecting an initial yield of 7.2%.

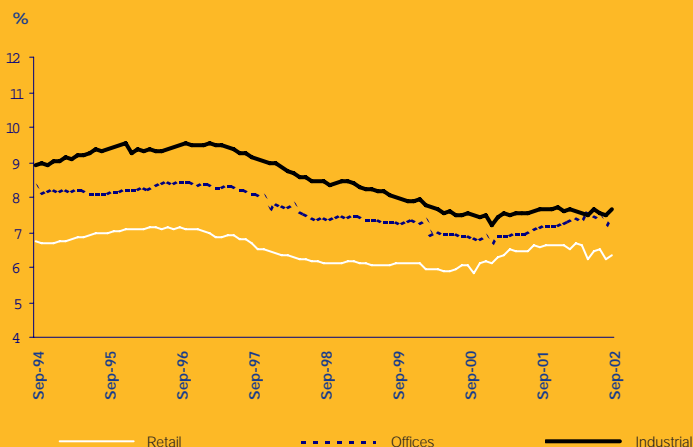
Some investors though have shunned acquisitions in the current market, preferring to concentrate on minimising vacancy rates on their existing portfolios.

## Outlook

The industrial yield premium to other sectors has eroded over the past year. This may impair any further downward movement. Nonetheless, the forecast recovery in manufacturing next year and low levels of supply for new space will support rental growth.

## Initial Yields

Source: IPD



## Leisure

### Hotels

Over the last few months, Hilton Hotels has dominated the hotel investment market. London and Regional acquired Land Securities' controlling interest in the Park Lane Hilton for £157 million and, more recently, the group completed their second major tranche of UK sale and leasebacks. We understand that Rotch have acquired a £335m portfolio of 10 properties including the 603-room Hilton Kensington with the remainder of the portfolio spread throughout the UK. Hilton have reportedly taken back 27 year leases with rents based on 28.8% of turnover plus a fixed payment of £3.1m per annum and a minimum guaranteed income to the investor of £17.5m per annum. Hilton has reportedly retained a significant equity interest in the new holding company.

Another company who are reported to be close to securing a sale and leaseback are Jarvis Hotels who have been in discussions with short-listed investors for a number of months now on a £150m portfolio. With the hotel market in general showing signs of getting back on its feet after the US terrorist attacks expect to see more of the same in the coming months.

### Health & Fitness

The health and fitness market is currently going through an uncertain time. This is illustrated by the profits warning issued recently by Fitness First.

The first signs of the oft-predicted consolidation are appearing in the market, with the acquisition of Esporta and Invicta Leisure by Duke Street Capital and the potential acquisition of Holmes Place by Cannons. As there is more competition brought about by the reduction of quality sites available for new clubs, there is likely to be more activity of this type during 2003.

### Pub update

There have been few deals reported on the open market for A3 units. However, after much speculation, Laurel, the Morgan Grenfell-backed pub operator, has finally announced a sale and leaseback package of around 275 outlets at a value in excess of £300m. London and Regional are reportedly the frontrunners to acquire what would be almost half of Laurel's 600 plus property portfolio, with Topland, Rotch and an RBS-backed private bidder all in the frame. The deal would allow Laurel to concentrate on the operational side of the business and also the capital raised would enable the company to clear debts in advance of a potential flotation sometime during 2003.

Another pub company in the news is London Inn Group with their announcement that they are looking to spend £100m on new acquisitions over the coming months.

### Gaming Sector

Subsequent to the Budd Report, casino operators are starting to take a more aggressive stance in the market with regard to sourcing new sites with potential for casinos. If the report's proposed changes are fully implemented, expect to see the casino and bingo markets making waves in the occupier market over the next couple of years.

“Casino operators prepare for gaming market liberalisation”

### Yields

There have been few investment sales over the last quarter. Prime yields outside of central London seem to have moved inwards slightly to 6.75% - 7.25%. The longevity of income with guaranteed rental growth on offer in the leisure sector may prompt more interest from small and mid-range investors.

### Leisure investment deals since July 2002

Source: Gerald Eve, Property Data

| Property                               | Tenant                           | Price (£m) | Initial Yield (%) |
|--|----------------------------------|------------|-------------------|
| Teeside Leisure Park, Stockton on Tees | Various                          | 17.00      | 7.25*             |
| Deep Pan Pizza, Walsall                | City Centre Restaurants (UK) Ltd | 1.29       | 7.51              |
| 10 Gold Street, Northampton            | SFI Group                        | 0.63       | 6.75              |
| Pizza Express, Aberdeen                | Pizza Express (Restaurants) Ltd  | 0.66       | 6.70              |
| Quality Clock Hotel, Welwyn            | Choice Hotels Europe PLC         | 3.75       | 8.55              |

\* - equivalent yield

# Gerald Eve's UK office network

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We provide a comprehensive range of services to our private and public sector clients covering consultancy, asset management and transaction advice.

Our philosophy is to serve clients by identifying opportunities and solving problems relating to property through the provision of high quality, thoroughly researched, cost effective advice.

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In its 13th year of publication, Invbrief is a quarterly summary of the latest trends affecting the investment market. If you require any further details of the facts and figures presented in this publication, or would like to discuss them in further detail, please contact our specialists:

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One of the key roles of Gerald Eve Research is to communicate with our clients and others on recent and future trends in the UK economy and the implications these may have on the occupational and investment markets.

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