INVBRIEF

Property investment market

Autumn 2013

Economic overview

- UK GDP rises to 0.7% (Q2 2013)
- Economic data for UK turns positive
- Eurozone concerns diminish
- Cautious optimism tempered by rising asset prices

Property overview

- 6.3% total return forecast for 2013
- Property remains a consistent performer
- All sectors forecast positive returns 2013-17
- Regional investment activity accelerating

GERALDEVE

0.7%

GDP Q2 2013 (ONS)

" Cautious optimism over a sustainable economic recovery should be tempered by the continuing impact of the austerity measures and an asset price bubble."

ECONOMY

Since the last issue of Invbrief, there has been a noticeable turnaround in sentiment, witnessed in both economic surveys and in reported economic data, creating a positive and upbeat economic mood. Recent data and surveys have pointed to acceleration in the UK's economic recovery.

GDP expanded by 0.7% in the second quarter of 2013, up from 0.3% in the first quarter, according to the final estimate by the Office for National Statistics (ONS). The figures imply that that the economy has now regained in excess of half the 7.2% of output lost in the 2008-09 recession. Given the sluggish start to the economy at the beginning of the year, combined with an early subdued outlook (the HM Treasury UK consensus forecast of independent forecasters for 2013 in January of this year was 0%), UK GDP growth has bounced back surprisingly well, although it is important to note that the path out of recession has taken longer than is typical when compared with previous recoveries.

Fears of a eurozone break-up are diminishing with improving prospects for growth in European economies in the second half of 2013 whilst finally emerging from recession after a record 18 months of economic contraction. GDP was growing by 0.3% in Q2 2013. Productivity also grew at its fastest pace for 26 months in August.

The pessimistic economic backdrop and lacklustre outlook at the time of the last issue of Invbrief was such that we reflected on the question 'Time for Plan B?'. A reversal of economic fortunes, had Chancellor George Osborne describing the current situation as moving from 'rescue to recovery'. Positive economic growth, in the short term at least, is back on the agenda.

Turning a corner?

Figures from the ONS indicate that unemployment fell to 2.49 million in the three months to August, reducing the unemployment rate by 0.1% to 7.7%. Commenting on these figures, Mark Hoban, the Employment Minister, said: "These are all positive signs that suggest the UK economy is turning the corner." However, this needs to be tempered by the fact that the number of part-time workers who cannot find a full-time job has continued to increase, with the number doubling over the last five years to an all time high.

Attention to the unemployment rate has taken on more significance since Mark Carney, the new governor of the Bank of England, has redefined base rate policy and said he would consider raising interest rates only when the unemployment rate had fallen to 7% or below. This means some additional 750,000 jobs will need to be created, which, according to the governor, is unlikely to be achieved for about another three years. The rise in the value of sterling against other major currencies, partly reflects the market's view that unemployment is heading in the right direction and may possibly reach the threshold level of 7% in a shorter timeframe, with the prospect that the bank rate will increase earlier than expected.

Are we in recovery?

Underlying the Q2 2013 figures, growth was widely based, improving across most key output components including manufacturing output and exports. Construction output showed the fastest increase since September 2007, largely accounted for by housebuilding. Growth in service sector activity has also been marked, with sector activity in August rising at its highest rate since December 2006 according to the latest Markit/CIPS PMI. The latest PMI for the manufacturing sector jumped to 57.2 (a figure above 50 indicates expansion); the fifth consecutive month of expansion and the highest reading since February 2011.

Retail sales volume surged by 1.1% in July, a 3% rise from the previous year and the 18th consecutive monthly increase. An unexpected fall of 0.9% in August has somewhat tempered these figures but confidence remains in a continuing upward trend in both retail sales and new car registrations. This was confirmed by an increase of 0.6% in September. According to the British Retail Consortium (BRC) and its survey partner Springboard, footfall at shopping locations was up 0.8% in July compared with a year earlier. BRC also noted that the percentage of empty shops in the UK had fallen back from a record high, with its town centre vacancy rate standing at 11.1% in July, down from a peak of 11.9% in April.

Export figures have also improved, largely helped by higher demand in the US market, which has helped narrow the trade deficit. Exports rose by 3.6% in Q2 2013, the highest increase in over 18 months.

There remains speculation on the future direction of interest rates. A recent survey by the Bank of England showed that only 29% of people expect an increase over the next 12 months, the lowest figure since November 2008. Add to that the various government assisted deposit schemes, for example the Funding for Lending and the Help to Buy schemes, which have contributed to a surge in demand for residential property from first time buyers.

This is evidenced in the recent Council of Mortgage Lenders figures which show that first time buyers accounted for some 45% of house purchase loans in the second quarter of 2013, the highest percentage since records began in 2005. Average UK house prices rose 0.6% in August, an increase of 3.5% over the previous twelve months. Prime central London property, has been rising at a faster rate than other sub-markets. On several measures house price is around 3%-5% a year, thereby creating concerns in some quarters about the likelihood of another housing bubble.

Improved Outlook

Consensus forecasts for GDP growth published by HM Treasury in August have been revised considerably since the beginning of the year. As at August 2013 the consensus figure is 1.1%, with the lowest figure being 0.8% and the highest 1.4%. There are indications of a pick-up in confidence across a broad range of sectors, including construction, manufacturing and services. The Bank of England has also upgraded its GDP growth forecast with minutes from September's meeting of the Bank's Monetary Policy Committee showing Q3 2013 growth is expected to be 0.7%, up from 0.5% forecast in August's Inflation Report.

The question being asked is, has positive growth returned? Given encouraging statistics and positive sentiment evidenced by recent surveys, we are now cautiously optimistic of a broadly based recovery than was the case before the summer.

Whilst some fundamentals have improved, it is too early to say with confidence that a corner has been turned with the economy. Austerity measures are still biting hard and an asset price bubble is a cause for concern in respect of sustainable growth.

Fig 1. Annual GDP growth by sector
Source: ONS

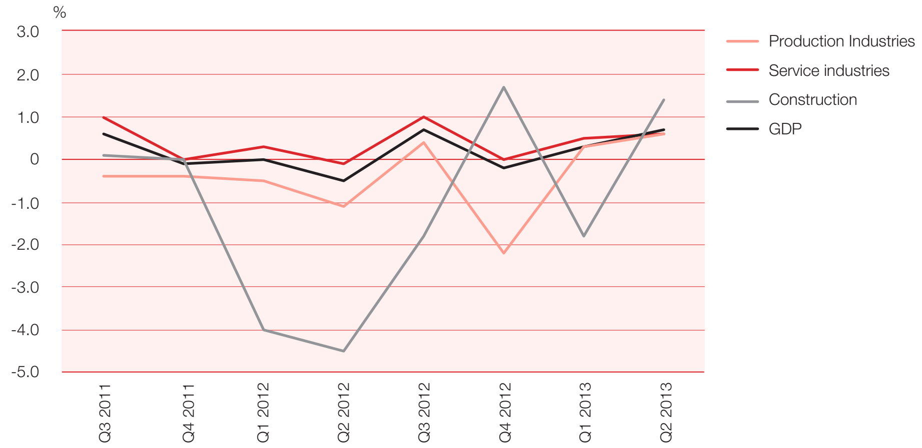
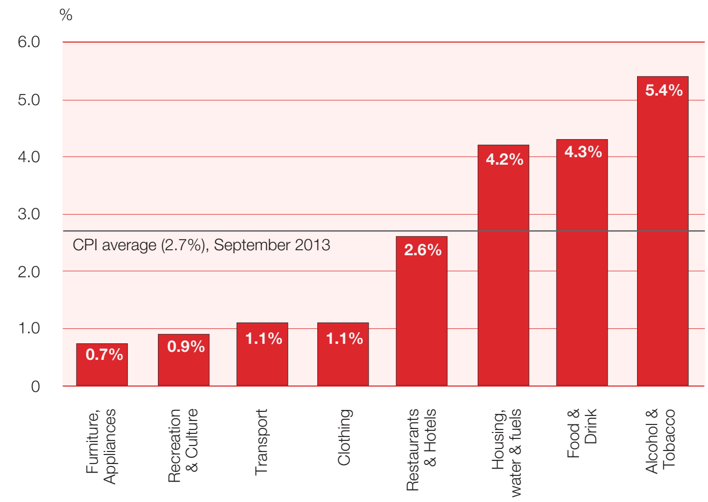


Fig 2: Consumer Price Inflation: Annual change to September 2013
Source: ONS



1.9%

Total returns Q2 2013 (IPD Quarterly Digest)

“ Property continues to be a consistent performer… led by London and the South East ”

PROPERTY

Improved returns in Q2 2013

UK commercial property total returns were 1.9% in Q2 2013, according to the IPD UK Quarterly Index. This was the highest quarterly return since Q4 2010 and the fifth consecutive quarter of increasing positive returns, with a total return of 4.6% being recorded for the 12 months to June 2013.

Whilst the recent consistency of total returns has been underpinned by stable income returns, capital values also increased by 0.4% in Q2 2013, a welcome return to positive growth following six consecutive quarters of falling capital values since the end of 2011. This was largely driven by yield compression, with yield impact being positive (representing falling yields) for the first time since 2011. Rental growth also accelerated slightly, with 0.2% over the quarter being the highest quarterly growth figure since Q2 2011.

At the sector level, offices were the highest performing sector for the sixth consecutive quarter, recording a total return of 2.3%. The industrial sector witnessed the greatest improvement with a quarterly total return of slightly below 2.3%, the highest return since Q2 2010. Retail property continued to report the lowest figure, with a quarterly return of 1.5%.

Capital growth was positive across all three major sectors for the first time since Q3 2011. Office again led the way with growth at 1.0%. Retail sub-sectors remained relatively subdued. Total returns in standard retail, shopping centre and retail warehouses all lagged behind offices and industrials.

Equivalent yields saw a dramatic improvement during Q2 2013, with positive yield impacts across all three major sectors. This is a notable sign of improved investor sentiment and demand as none of the sectors had witnessed falling yields in any quarter since 2011. The improvement was most dramatic in the industrial sector, where yield movement contributed 0.7% to capital growth in Q2 2013, compared with a negative contribution of -0.4% in the previous quarter.

Regional divide less pronounced

Property performance has been split along pronounced geographical lines in recent quarters, with London and the South East outperforming all other parts of the UK. Whilst this trend continued in Q2 2013, with the improvement in capital and rental values being driven by central London offices, London and South East retail markets, and South East industrial property, there is finally evidence of a recovery extending to UK regions beyond London and the South East.

Whilst the office sector continues to be led by central London markets, where both capital value and rental growth have been consistently positive in every quarter since the end of 2009 – rental growth is now finally starting to feed into regional markets, with positive figures being recorded in Q2 2013 by IPD in the South Eastern, Eastern and Scottish office markets.

Retail sectors also continue to be led by London and the South East, with a total return of 3.5% in the City and Midtown and 3.4% in the West End. Industrials maintained a stable performance where returns were largely driven by positive income returns.

Outlook positive

With monthly data now available for the third quarter of 2013, indications are strong that this recovery is set to continue, or even accelerate, over the rest of the year. According to the IPD UK Monthly Index for September, UK commercial property delivered a total return of 1.2%, the highest monthly return achieved since April 2010. All Property total return has improved in each of the past seven months, with total returns for Q3 2013 of 2.9%.

In September, all three sectors saw improved total returns and capital growth compared to August. The office sector witnessed the highest capital growth since March 2009 at 1.0%, a definite sign of increasing investor sentiment. In a continuing trend from the previous quarter, the gap between regional performance and central London has all but disappeared, with total returns of 4% for both South East and Eastern markets for the three months to September being the same as City Offices and only marginally behind the West End market at 4.1%.

Latest rental growth figures also provide a positive story for the office sector. Office rents increased by 0.5% in September, according to IPD figures, a monthly increase greater than any witnessed since September 2007. Whilst still led by central London (City office rents increased by a remarkable 1.7% last month), it is significant to note that rents either increased or stayed constant in all regions of the UK for the first time in the current cycle.

Although vacancy rates for offices over the year have risen slightly in central London, they still remain below the peak levels of 2009. Strong demand and a constrained pipeline have helped to limit the rise in vacancy rates.

On the industrial front, total returns have remained consistent in recent months, with a total return of between 1% and 1.5% each month since June. Capital growth has also returned to all regional markets; London and the South East have led the way with total returns for the three months to September of 3.8% and 3.9% respectively, but returns are broadly consistent across the country, driven by the positive capital growth figures in all UK regions in each of the past three months.

Industrial rental growth has also been consistent in the majority of UK regions, with only the South West experiencing falling rents during the three months to September. Furthermore, confidence may be starting to return as evidenced in recent CIPS confidence surveys. However, although poorer quality secondary growth will still likely be sluggish or even a shade negative in some of the better-supplied regions, prime and good quality second-hand stock is in short supply. Consequently, there are relatively few options for occupiers other than contract bespoke build-to-suit units, at a higher, possibly index-linked rental levels, or accept less tenant-friendly terms on existing stock. We anticipate that there is still momentum for further positive growth.

The retail sector was the lowest performing sector in September with a total return of 0.8%. This was nevertheless a continued sign of steady improvement, with August and September providing the first two months of positive capital value movement since October 2011. Shopping centres have been the slowest retail sub-sector to join the recent recovery, with total returns and capital growth below those of standard retails and retail warehouses in each of the last six months.

In contrast to the positive news in the office and industrial sectors, retail rents continue to fall, with all three sub-sectors experienced falling rents every month in 2013, according to IPD. Retail warehouse rents have shown marginally more signs of improvement than shopping centre or standard retail rents, with secondary shopping centres and regional high street shops suffering worst of all.
Our forecasts for the major property sectors are set out in detail in the following section.

Fig 3. Investment performance by sector & region: Q2 2013
Source: IPD Quarterly Digest

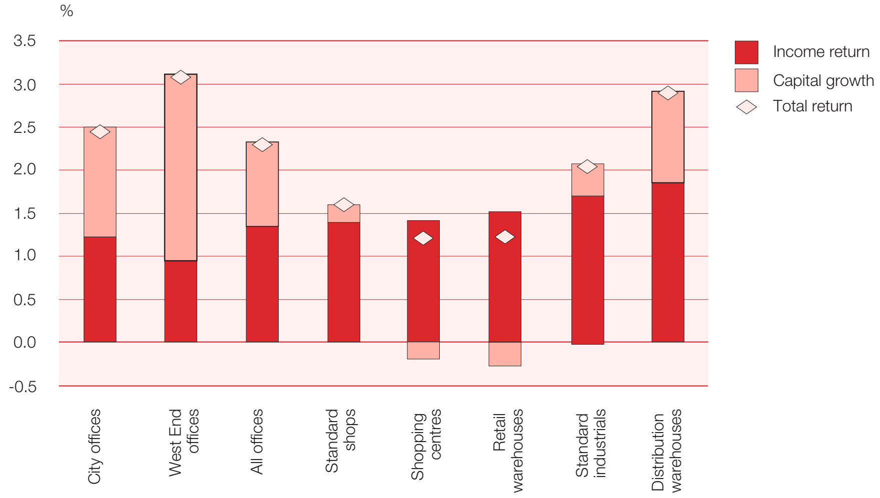
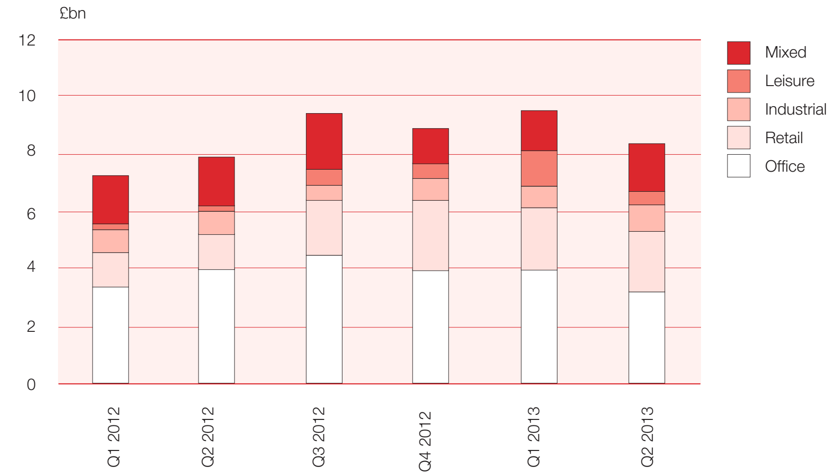


Fig 4. Transaction value by property type: Q2 2013
Source: Property Data



6.3%

Total return forecast for 2013 (Gerald Eve research)

" Total returns across all sectors turn positive with the UK seen as a premier destination for international investment "

FORECASTS

Outlook

Major international forecasting organisations, including the IMF and OECD, have revised upwards their outlook for the UK economy.

The nascent recovery and improved optimism leading to improved economic prospects, provides an encouraging backdrop for our property forecasts. Furthermore, the improved economic output figures are evident throughout most sectors of the economy and, if this is more than a temporary turnaround, will be good news across all of the property sectors. Combined with a constrained development pipeline, our forecasts for the eight sectors, unsurprisingly, reflect an improved outlook over the next few years.

Rental growth

Although recent sales volumes have been picking up, earnings growth is weak and we anticipate, on average, negative rental growth across the retail sectors this year, largely reflecting the poor performance over the first half of the year. Our forecasts are therefore lower than the IPF consensus for standard shops and shopping centres for this year. An improvement in expenditure, output and employment will have a knock-on impact on retail rents in subsequent years and we anticipate a return to sustainable positive rental growth in 2014. However over the five-year period, on average, we expect that standard shops and shopping centres will produce the lowest annualised rate of rental growth.

We anticipate that offices will be the best performing sector, with the West End expected to produce the highest rental growth, (5.1%), followed by the City office market (3.9%). As levels of demand remain steady and the shortage of Grade A space is highlighted, further increases in headline rents are expected over the short term, and we anticipate that there is still momentum for further positive growth. Our forecasts for 2013 and 2014 are slightly higher than the IPF consensus, and we anticipate some fall-off in 2015.

Over a five-year period we anticipate West End office rental growth will be the highest, averaging 4.1% per annum. More broadly outside London confidence is slowly starting to return in some regional markets, but there is limited Grade A space, with the consequence that rent-free periods are likely to fall.

We forecast rental growth in industrial and distribution warehouse markets to improve steadily between 2013 and 2015. In the logistics sector, the shortage of supply, particularly of good quality or refurbished properties, has already had a positive impact on prime headline rental growth and we believe it will only be a matter of time before this feeds through to good quality secondary properties given recent movements in incentives. We expect rents to grow strongest in the core markets in the Midlands and London and the South East where the supply shortage is most acute and where demand has been strongest, and for a more detailed breakdown of the sector, see our Q3 Prime Logistics bulletin.

Table 1. Rental growth forecast (%pa)

Sector	2013	2014	2015	Average 2013-17
Standard shops	-1.1	0.6	1.8	1.2
	(0.0)	(0.9)	(1.6)	(1.3)
Shopping centres	-1.7	0.5	2.2	1.0
	(-0.8)	(0.4)	(1.4)	(1.1)
Retail warehouses	-0.3	1.3	1.9	1.7
	(-0.3)	(0.9)	(1.6)	(1.4)
West End offices	5.1	5.4	3.1	4.1
	(4.8)	(4.7)	(4.8)	(4.5)
City offices	3.9	4.1	2.8	3.4
	(3.6)	(4.0)	(4.2)	(3.6)
Offices (all)	2.3	2.7	2.3	2.7
	(2.4)	(3.0)	(3.5)	(3.1)
Standard Industrials	0.4	0.7	1.6	1.5
Distribution Warehouses	0.8	1.0	1.6	1.6
(All Industrial)	(0.1)	(0.8)	(1.3)	(1.2)
All property	0.3	1.4	2.0	1.8
	(0.5)	(1.4)	(2.1)	(1.7)

Figures in brackets represent IPF Consensus Forecasts

Table 2. Total return forecast (%pa)

Sector	2013	2014	2015	Average 2013-17
Standard shops	4.5	7.0	6.8	7.0
	(5.9)	(7.0)	(7.3)	(6.8)
Shopping centres	4.9	4.6	8.5	6.6
	(5.8)	(7.3)	(8.0)	(7.2)
Retail warehouses	5.1	7.6	8.7	7.3
	(6.2)	(7.8)	(8.1)	(7.5)
West End offices	10.0	10.4	8.6	8.0
	(10.3)	(8.7)	(8.4)	(8.0)
City offices	9.8	9.5	7.1	8.2
	(9.7)	(8.8)	(8.6)	(8.0)
Offices (all)	8.6	8.3	7.7	7.9
	(8.5)	(8.9)	(8.9)	(8.2)
Standard Industrials	6.8	8.7	9.7	8.7
Distribution Warehouses	8.2	9.7	9.5	9.0
(All Industrial)	(7.9)	(8.9)	(8.9)	(8.4)
All property	6.3	7.3	8.2	7.5
	(7.0)	(7.9)	(8.2)	(7.6)

Figures in brackets represent IPF Consensus Forecasts

Total return

Our total return forecasts have been upgraded since the Spring issue of Invbrief, reflecting a combination of improved rental growth and yield tightening. Inflows of money into UK commercial property have been steadily rising for several quarters. The UK remains one of the top destinations for overseas money and we expect this to continue, with the consequent positive impact on yields and total returns. All of our total return forecasts are in positive territory and, furthermore, have more of an upside potential that was the case in previous issues of Invbrief.

Commercial property returns and capital values are linked to the wider investment markets, and there are a variety of views about the outlook for equity and bond markets over the medium term, including considerations as to when interest rates are likely to increase. Long-dated gilt yields have risen over the last twelve months and if they were to increase considerably more, or were expected to do so, this would impact on property pricing.

Furthermore, given the more favourable outlook for the economy and the property markets, there is likely to be a wider market assessment of the property risk premium with the consequent impact on pricing. In considering property capital values/yields in our forecasts we have assumed that the underlying impact of bond yields and the property risk premium are likely to evolve gradually.

At the All Property level in 2013, we anticipate a total rate of return in the region of 6.3% (3.4% in 2012), supported by the performance in the West End and City office markets. Over the five-year period 2013-2017 we expect the all property return to average 7.5% pa.

Standard industrials and distribution warehouses are expected to outperform the retail sectors. Distribution warehouses are expected to deliver the highest annual average returns over the five-year period 2013-17.

Fig 5. Annual rental growth forecast

Source: Gerald Eve Research, IPD

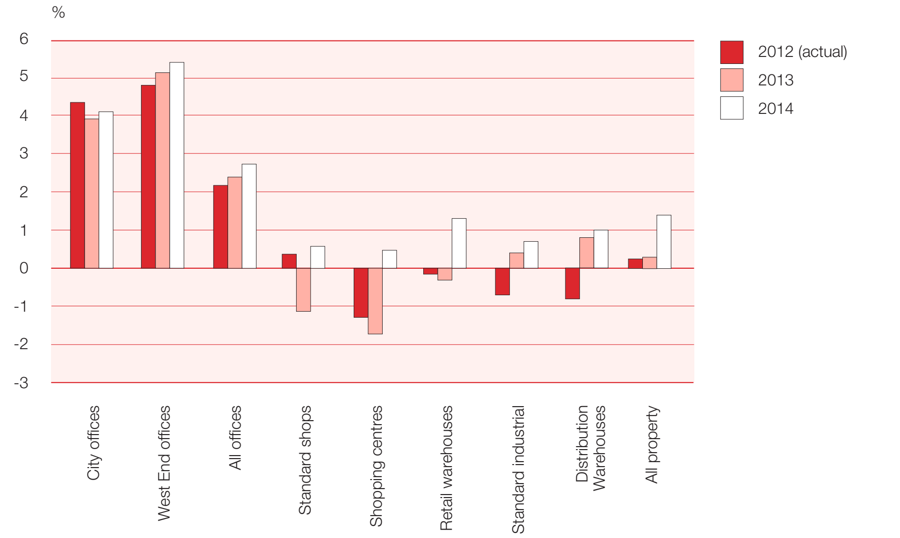
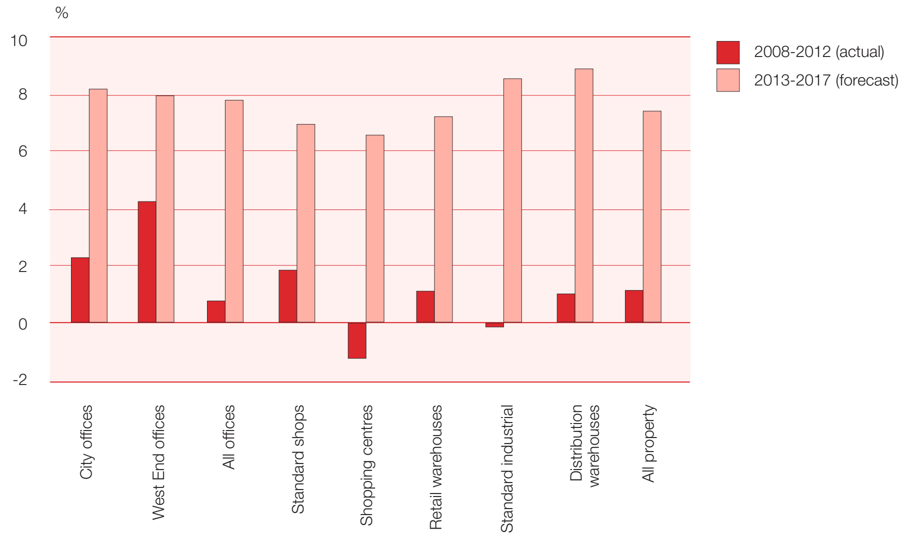


Fig 6. Historic and forecast five-year yr annualised total return

Source: Gerald Eve Research, IPD



" Regional activity picks up particularly in major metropolitan cities "

" International investors fuel a downward pressure on yields with no discount for lot size for prime assets "

INVESTMENT

City offices

The first half of 2013 saw strong levels of demand from investors in the City of London, and while not quite at the same levels as the previous year, the total volume of transactions remains historically high. The decrease in supply of "super-prime" assets has led to more off-market approaches, and the pool of investors continues to widen. As a result several investors have made their UK debut in the City so far this year.

Overseas investors are still targeting the larger assets, and their presence is evident by the volume of £100m+ deals and downward pressure on yields. Prime yields had been stabilising at between 5% and 5.25% for some time, but are now steady at around 4.75% with lot sizes having no real discernible effect on the yield profile.

Notable recent transactions have included Oxford Properties's purchase of King Edward Court, EC4, let to the London Stock Exchange, for £235m reflecting a net initial yield (NIY) of 5.4%. Oxygen Asset Management, on behalf of a private South African investor, purchased 1 Basinghall Avenue, EC2 for £216m which reflected a NIY of 4.75% in an off-market transaction and Malaysia's KWAP Pension Fund completed their purchase of 88 Wood Street, EC2 for £215m reflecting a NIY of 5.75%. Samsung SRA Asset Management purchased their first property in the City of London with their acquisition of 30 Crown Place, EC2 for £142m reflecting a NIY of 4.95%.

Downward pressure on yields is helped not just by demand from overseas investors but by further improvement in the occupational market. Rents have continued to rise and current levels of demand look set to remain in at least the short term. This has had an impact on prices paid for vacant/short term income, with opportunities to gain exposure to the rental market, trading at the highest levels seen since 2007. Royal London Asset Management purchased 30-34 Moorgate, EC2 for £15m which reflects a capital value of £535 psf, with Lloyds TSB on a lease for less than a year.

West End offices

There continues to be a limited supply of stock within the West End investment market, with around £1bn transacted in Q2 2013, a slight increase on Q1 although still well below the long term average, with investor demand still outstripping asset availability throughout the area. The market over the summer was again dominated by residential development transactions, including Alchemi's purchase of Great Minster North for £97m.

Prime office yields remain stable at around 4%, with a slight discount for large lot sizes. There has been downward pressure on prime yields from foreign investors willing to move further up the risk curve. Notable deals of the summer include Hermera Capital's sale of 52 Conduit Street, W1 for £28.85m reflecting an NIY of 3.7% and USS's sale of 28 -29 Dover Street, W1 for £32m reflecting an NIY of 3.75%, both purchased by private foreign investors and with NIYs reflecting an element of retail at ground level.

Recent months have also seen continued demand from occupiers in the West End office market, in particular the TMT and services sectors. Sentiment continues to improve, enabling more businesses to make firm commitments for the future. Despite this, take up fell during Q2 2013, in comparison to a strong figure the previous quarter. This was in part due to the shortage of supply within the West End.

Prime rents have remained strong. In the Mayfair and St James office markets this has increasingly led to occupiers being priced out of the market with achieved rents in excess of £100 psf. Notable deals from these two markets, which have set new rental levels for this cycle, include Noble Energy (9,000 sq ft) at Devonshire House, W1 at a rent of £120 psf and Temasek (8,400 sq ft) in 23 King Street, SW1 at a rent in excess of £125 psf.

Regional offices

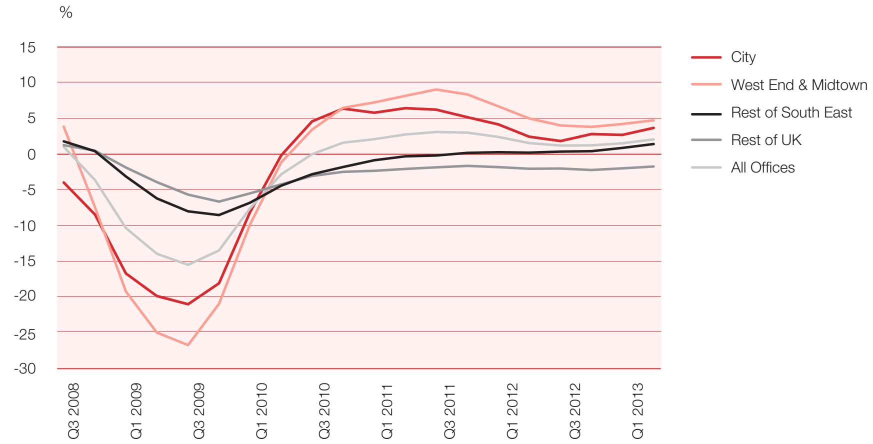
During the last quarter, we saw a significant increase in demand for best-in-class regional offices. This has been driven primarily by a significant surge of demand for Thames Valley offices. A number of high profile transactions have taken place which include Goodman's sale of the new British Gas headquarters on Oxford Business Park to Charles Street for £29.1m, reflecting a NIY of 5.95% for a 15-year income stream. Demand for this type of asset continues to increase due to a lack of supply, as the speculative development market has been very sparse and tenants are unwilling to sign up for a term certain in excess of 10 years.

Parties that have undertaken speculative development over the last couple of years can be rewarded, and this is outlined by the Stanza Building, Uxbridge developed by Rockspring. The building was let to Nexen within six months of completion on a 12 year lease at £32 psf, the highest rent seen in Uxbridge since 2007. The building then shortly sold to NFU for over £43m reflecting a market-leading net yield of 5.65%.

Outside of the Thames Valley, the major regional centres have also seen an increase in investor activity. High profile transactions include Toronto Square, Leeds, a multi-let office of 91,000 sq ft sold to M&G for £29m reflecting a NIY of 7%. The buyer profile in major regional locations has changed in line with central London as overseas investors become more comfortable with these markets. An example being Trinity Bridge House, Manchester, which provides 15 year income to the government, and was sold to an overseas purchase for £45.8m reflecting a NIY of 6.5%. We expect demand to increase further, as overseas appetite increases and UK institutions come under pressure to spend before the end of the year.

Fig 7: Fig 2.Office markets rental growth – rolling annual % change

Source: IPD Quarterly Digest

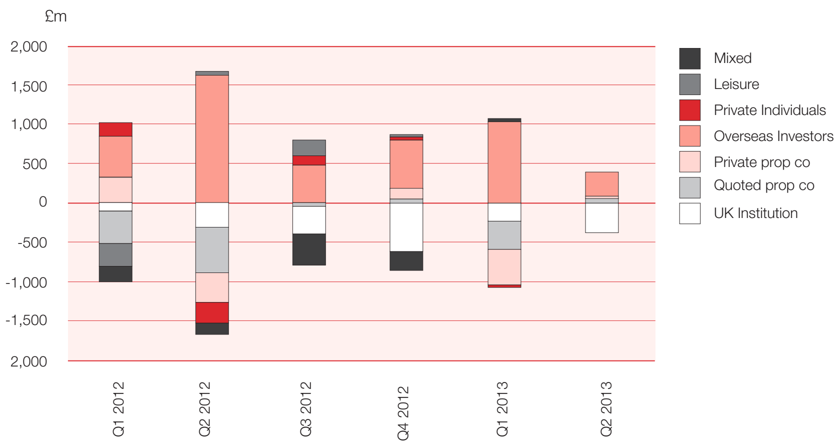


Retail

Trends in the retail market have been mixed in the first half of 2013. The gap between prime and secondary retail is now at record levels with Q3 seeing prime yields hitting lows of 4.84% according to the latest Property Data analysis. This has been driven by elevated levels of institutional demand for high street properties despite the lack of prime stock on the market restricting activity.

Fig 8. Net investment by investor type – central London offices

Source: IPD Annual Digest



On the high street institutions are focusing exclusively on prime town centre locations, seeking strong income streams and covenants with prime yields reaching 4.5% - 4.75%. Despite the relatively low levels of transactions in the high street sub-sector, shopping centres and supermarkets have traded well, with trading volumes in the former reaching over £519m in Q3 according to the latest Property Data analysis. The depth of investor demand, particularly from annuity funds, is driving prime shopping centre and supermarket yields to lows of 5% and 4.25% respectively and there is no sign of this abating. Notable deals in Q2 were Intu's purchase of, Midsummer Place, Milton Keynes for £250m, and Royal London's acquisition of a Morrisons supermarket in Aldershot in May 2013 for over £41m at a NIY of 4.25%.

Looking forward, while prime stock is likely to continue to perform well with the growth in demand and pricing set to continue, the medium-term prospects for the retail property market depend heavily on a recovery in consumer spending with secondary and tertiary assets continuing to see yields increase as consumer and investor confidence remains unsettled.

" Occupational demand spurs on prime rental growth for industrials."

" Appetite for alternative markets continues despite lack of supply in some sectors."

Industrial

Underpinned by a positive occupational market with prime rental growth, robust levels of demand and the return of speculative development, the logistics sector continues to see strong interest from a range of investors who value the defensive qualities and income security of the sector. This interest has driven compression of prime yields to new benchmarks for the current cycle over the summer months.

The positive occupier market has been of particular benefit to short and medium-income opportunities, given the relatively high yields on offer and the improved prospects for re-gearing or re-letting. A key example is Delin's recent acquisition of Bunzl's 220,000 sq ft unit on Agecroft Commerce Park, Manchester for £13m, reflecting a 7.3% NIY, which provided a guaranteed income of only 3 years but with good potential for a future re-gear.

Demand, particularly from UK institutions, for long-dated income on prime properties in good locations remains particularly intense and shows no signs of abating. September saw the lowest prime yield being paid on a distribution warehouse since the beginning of 2008 with Gazeley's forward sale of the 669,000 sq ftJohn Lewis building at Milton Keynes. Adjacent to the retailer's existing building, the facility is pre-let on a 30 year lease with annual RPI uplifts.

This rare combination of strong location and annuity income generated aggressive bidding from a combination of UK funds and overseas investors, before finally being sold to Aviva Investors for £76.5m reflecting a 4.75% NIY.

Other recent deals include Legal & General's purchase of two units totalling 1.1m sq ft in South Yorkshire occupied by Next on newly re-geared 25 year leases for £86.68m (5.5% NIY). Standard Life completed on three long-income funding deals, a 631,000 sq ft pre-let to Travis Perkins in Warrington for £52.8m (5.6% NIY), a 355,000 sq ft pre-let to Poundland in Harlow for £30.22m (6.5% NIY) and a 172,500 sq ft pre-let to Brakes in Glasgow for £15.87m (6.25% NIY).

Alternative markets

The alternative markets continue to attract good interest given the shortage of quality supply in other sectors and the continued attraction to the long-term nature of the income streams available.

The healthcare sector has attracted significant interest with investors again focusing on the demographics of the sector. Whilst a number of operators still face restructuring issues, the successful sale and leaseback of the Barchester healthcare portfolio to Ravenshill International, which allowed the group to repay its £1.3bn liability, is evidence of confidence in the market. Smaller portfolios such as the 21 home 'Florence' portfolio let to MHA and Royal Mencap Society have also received good interest at close to the asking price of £100m, reflecting a 5.75% NIY.

The residential and student accommodation sectors are still in demand, despite some concern over the supply in certain regional centres, and some universities witnessing a fall in student numbers.

In the last InvBrief, we reported the flurry of transactions as leisure businesses continue to deliver like-for-like sales growth, thereby outperforming comparable retailers. In recent months there have been an unprecedented number of investment transactions in the sector including renewed interest in health and fitness clubs and pubs.

Lloyds are due to complete the sale of Menzies Hotels and De Vere Venues before the end of the year, following the disposal of Principle Hayley conference centres in Q1 2013 to Starwood Capital. It is rumoured that Starwood is the frontrunner for De Vere Venues, which will create the largest conference portfolio in the UK.

The largest M&A transaction was TDR Capital's acquisition of David Lloyd Leisure (DLL) for £750m. The group operates 87 David Lloyd gyms and two exclusive Harbour Clubs with 10 clubs in Europe and approximately 450,000 members. The sale will provide DLL with the access to funding to develop its pipeline of 20 new clubs.

The demand from institutional investors for health and fitness club investments has continued to gain momentum with the budget and premium clubs outperforming the mid-market clubs. Henderson Global Investors recently purchased the long leasehold interest of the Wandsworth Virgin Active Club for £9.25m, reflecting a NIY of 6.1%. In the next quarter, Gerald Eve will be marketing the freehold interest of the Northampton Virgin Active with offers in excess of £4.39m reflecting a NIY of 7.0%.

In the pub sector, it is reported that the William Pears Group is negotiating the purchase of approximately 300 tenanted pubs from Greene King for £100m. The transaction will enable Greene King to invest in their managed pub company and their aggressive development pipeline. A large portfolio disposal such as this is welcomed, in the pub sector thus enabling further turnover of estates and investments.

The largest M&A transaction in the pub sector was Stonegate Pub Company's acquisition of 13 Living Rooms from PBR Leisure (PBRL), rumoured to have sold at £10m. Gerald Eve is currently marketing five PBRL pubs, clubs and hotels as the operator seeks to reposition their estate following the subsequent significant reduction of debt.

The demand for Premier Inn investments has continued to gather pace with at least eight Premier Inn transactions occurring in the last quarter. The lowest yield achieved was Royal London Asset Management's forward purchase of St Mary-at-Hill in EC3, reflecting a NIY of 4.6% for the 183 bedroom hotel.

Fig 9. Initial Yields - UK sectors
Source: IPD Monthly Digest

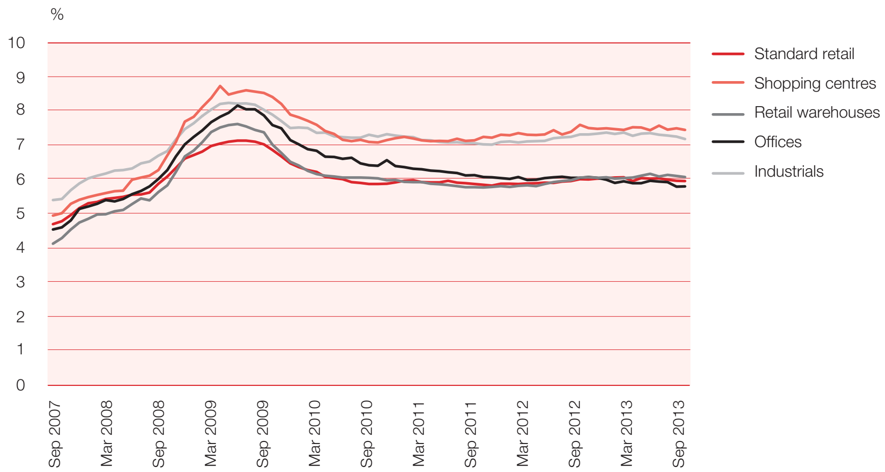


Fig 10: Recent leisure investment deals
Source: Gerald Eve Research

Property	Location	Tenant	Sale Price	NIY (%)
Kensington Roof Gardens	Kensington High Street, London W8	Various inc. Virgin, Sony	£225,000,000	4.57%
YHA Oxford Street	Noel Street, London W1	Various inc. YHA	£10,300,000	4.60%
David Lloyd Leisure	Frogmore Lane, Southampton	David Lloyd Leisure	£3,078,000	4.84%
Virgin Active Health Club	Wandsworth, London SW18	Virgin Active	£9,425,000	6.13%
Novotel	Schooner Way, Cardiff	Accor UK	£12,300,000	6.50%
The Light	The Headrow, Leeds	Various	£91,800,000	7.20%
Dickens World	Chatham Maritime, Chatham	Various inc. Odeon	£12,900,000	8.00%
Larkswood Leisure Park	Larkswood Leisure Park, London E4	Various	£6,775,000	8.25%
Vue Cinema	Leicester Square, London WC2	Vue Cinema	£23,460,000	8.25%
I-Scene	Ilford, Essex	Cineworld	£19,000,000	8.60%
Mecca	Great Western Retail Park, Glasgow	Mecca Bingo	£10,470,000	8.80%
Mecca	Halesowen Street, Oldbury	Mecca Bingo	£4,600,000	8.87%

GERALD EVE'S UK OFFICE NETWORK

Gerald Eve LLP is an independent firm of chartered surveyors and property consultants, employing more than 350 staff across the UK.

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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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www.bankofengland.co.uk
www.ons.gov.uk
www.treasury.gov.uk
www.dti.gov.uk
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www.ipf.org.uk
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www.propertydata.com
www.property-week.co.uk
www.chamberonline.co.uk

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