INVBRIEF

Property investment market

Summer 2014

Economic overview

- UK economy returns to pre-recession GDP levels
- GDP growth of 2.7% and 2.3% predicted for 2014 and 2015
- Fiscal issues remain and recovery remains unbalanced
- UK unemployment at a five year low
- A 25bps interest rate predicted in Q4 of 2014

Property overview

- Yield compression across all sectors
- Central London assets continue to perform strongly
- Transactional volumes are back to pre-recession levels
- City and West End offices will produce highest return in 2014
- Residential prices continue to increase with London and the South East showing the highest growth

GERALDEVE

2.17%

GDP Estimate for 2014 (OBR)

" If growth can continue to occur withour significant inflationary pressure, there is a strong possibility of a sustained positive investment environment."

ECONOMY

UK GDP expanded by 0.8% in Q1 of 2014, according to the Office of National Statistics (ONS). This continued the positive trend of growth seen in 2013, when growth was 2.5% over the year.

In terms of GDP levels, the UK economy has now fully recovered from the financial crisis. The National Institute of Economic and Social Research (NIESR) estimate that GDP grew by 0.9% in the three months ending in May, meaning economic output has surpassed its pre-recession peak.

This encouraging performance is widely expected to continue into the future, and in April the International Monetary Fund (IMF) projected that the UK would have the highest rate of GDP expansion out of any major developed economy in 2014.

Despite a series of positive economic indicators, the UK Budget was delivered in March against a backdrop of lingering fiscal issues and a potentially unbalanced recovery, which has arguably been over-reliant on consumption. The Office for Budgetary Responsibility (OBR) project the deficit to comprise of over £95bn in 2014-15 and estimate the annual budget will not run at a surplus until 2017-18; meaning for the time being, austerity is likely to continue.

Approaching a full recovery

It is worth noting that although the UK has nominally recovered from the financial crisis, due to population growth GDP per capita remains approximately 6% lower than its 2008 peak. Furthermore, the latest figures from the ONS indicate that, on average, productivity has not yet recovered to pre-recession levels across several key sectors.

Retail sales volumes dropped by 0.5% in May, somewhat masking the longer term trend of an increasing volume of goods bought in the retail industry. In April, for example, volumes increased by 6.9% compared with April 2013. This was the highest annual growth in the quantity bought since May 2004 and continued a pattern of year-on-year growth since early 2013. Whilst retail sales volumes had largely recovered to pre-recession levels by 2012, sales volumes in Q1 of 2014 comfortably exceeded those levels.

The UK unemployment rate dropped to a five year low of 6.6% in April according to the ONS, demonstrating that the economic recovery has translated into increased activity in the labour market. Whilst official unemployment figures for May are not yet available, the number of Job Seekers Allowance claimants continued to decrease in this month, indicating that unemployment will continue to fall in the immediate future.

Consumer prices rose by 1.5% on an annual basis in May, according to the ONS. Inflation has now remained comfortably below the 2% being targeted by the Bank of England for the sixth consecutive month and according to the Bank of England's Monetary Policy Committee (MPC), unemployment can fall further before price pressures start to build.

Potential rise in interest rates

The MPC unanimously voted to again maintain the Bank Rate at 0.5% at their last meeting. June 2014 is now the sixty-third consecutive month of the record low interest rate.

The MPC are likely to contemplate increasing the Bank Rate as the economy continues to improve and the Governor of the Bank of England and chairman of the MPC, Mark Carney, recently hinted that interest rates may increase sooner than expected.
As long as unemployment is able to drop without any detrimental inflationary effects, the Bank of England can continue to hold or incrementally raise interest rates, whilst they wait for other economic indicators (particularly productivity levels across various key sectors) to improve before significantly revising their position.

In our view, it is probable that an incremental interest rate rise of 25 bps will occur before the end of 2014, although no major increase should occur before the end of 2015.

Europe stabilises for now

In the summer of 2013 the Eurozone formally ended a two year recession (the longest in its relatively short history). As a result, the hazards presented to the UK by economic, fiscal and monetary problems in the Eurozone, highlighted in the previous issue of Invbrief, have diminished somewhat in 2014. Following 0.2% growth in Q1 of 2014 (Eurostat), the European Commission released its latest set of forecasts for Eurozone growth; following real GDP growth of 1.2% in 2014, activity is expected to accelerate in 2015 to 1.7%.

The sovereign debt crisis in southern Europe which triggered fears of an economic collapse also appears to have lessened in 2014. The Eurozone's average national debt to GDP ratio is forecast to peak this year at about 96% before it starts falling from 2015 onwards due an imminent range of measures aimed at aggressive fiscal tightening.

However, there are still signs of systemic weaknesses in the continental economy. Unemployment is still high at 11.7% and several major EU member states have national economies which continue to exhibit very weak levels of economic growth. The French National Institute of Statistics and Economic Studies (INSEE), for example, reported that in Q1 of 2014 French GDP expansion levelled off at 0.0% after a modest 0.2% increase in Q4 of 2013.

The recent successes of Eurosceptic parties across the European Union in both domestic and European elections further highlight a climate of perceived political failure in Brussels, Frankfurt and Strasbourg and an overall lack of confidence in both the continent-wide and national economies of Europe.

A housing bubble?

House prices rose by 11.1% annually in May, according to Nationwide (the fastest annual increase since June 2007) and average house prices are now 4.8 times average annual earnings. The latest survey from the Royal Institution of Chartered Surveyors (RICS) indicates that house prices will continue to grow nationwide with the highest levels of growth remaining in London and the South East as the housing sales-to-stock ratio reaches a post-crisis high.

The Bank of England's Financial Policy Committee (FPC) noted that whilst a number of housing market indicators remain below long-run averages, it is vigilantly monitoring any emerging vulnerabilities an
d it will take further action if warranted.

Outlook

The latest consensus forecasts from the OBR projected that UK GDP growth would be 2.7% in 2014 and 2.3% in 2015. The OBR has also projected that unemployment will fall to record levels; dipping below 5.5% in 2018 and that real wages will start to increase this year. If growth can continue to occur without significant inflationary pressure, there is a strong possibility of a sustained positive investment environment.

Fig 1. Historic and projected GDP (Q1 2007=100)
Source: ONS, IMF, OECD, OBR

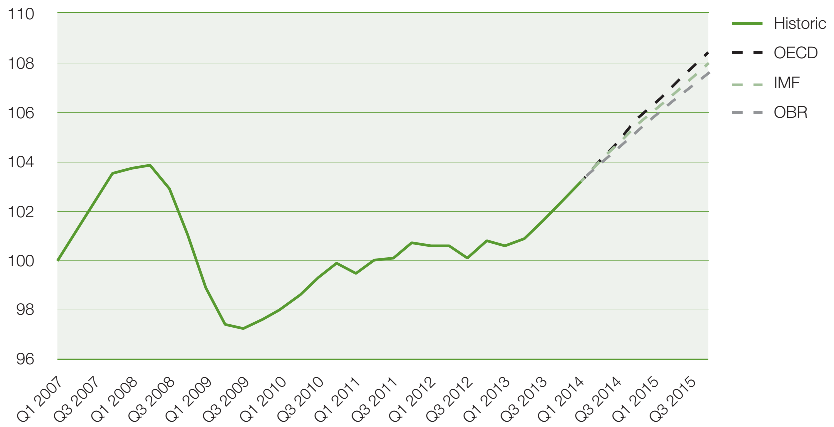
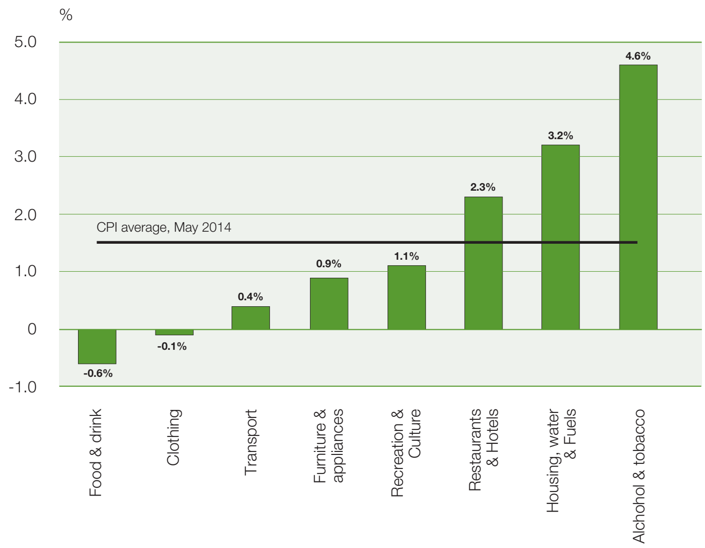


Fig 2: Consumer Price Inflation (CPI): Annual change to May 2014
Source: ONS



3.7%

Total quarterly returns Q1 2014 (IPD)

" Yield compression across all sectors indicates renewed investor confidence "

COMMERCIAL PROPERTY

The investment performance of UK property has been strong during the first half of 2014, with total quarterly returns in Q1 running at 3.7%, according to IPD Quarterly Digest. This has primarily been driven by capital growth, whilst income return has remained stable – capital values increased by 2.2% and rental income stood at 1.4%.

Rental value growth contributed 0.7% to total returns in Q1 of 2014, the highest level of any quarter since Q4 of 2007. That said, rental values, in both real and nominal terms, have yet to pick up to pre-financial crisis levels and income return has largely remained at the 2012 and 2013 levels of 6.0%.

This improvement was therefore predominately due to yield compression which contributed to a 6.5% annual increase in capital growth in Q1 of 2014, up from 4.3% annually in Q4 of 2013. The drop in yields, across all sectors, indicates renewed investor confidence, a growing demand for commercial property assets and supply restrictions caused by a slowdown in new development post-recession.

This positive trend has continued in Q2 of 2014 with monthly total returns in April and May running at 1.3% and 1.6% respectively, according to IPD Monthly Digest. Annual total returns ending in May 2014 were the highest in any comparable period since November 2010, delivering 16.03%.

Rental growth followed a similar pattern in Q2 of 2014 where May witnessed the highest average monthly rental growth rate since November 2007 of 0.26%.

Sector and Regional Performance

The marked improvement in the performance of property in 2013 and 2014 was reflected across the major commercial asset classes. Retail has seen the highest levels of growth in total returns since Q1 of 2013, followed by industrial property and offices. Nonetheless, offices still delivered the highest overall returns in this period, closely followed by industrial property, both in excess of 15% between Q1 2013 and Q1 2014.

Average initial yields across all UK property have remained largely constant for the past few years at just over 6%, according to IPD. However, a substantial decrease was witnessed in Q4 2013 and this trend has continued into Q1 of 2014. Initial yields for all major asset classes, bar shopping centres and industrial property, are now between 5% and 6%, average initial yields are at their lowest point since 2008 and average monthly equivalent yields for all property hit a 71 month low of 6.9% in May.

In terms of total returns, there remains a divergence in the performance of property in London and the South East in comparison to the remainder of the UK across most sectors, typically delivering over 50% and 20% greater returns, respectively.

That said, the total returns posted in Greater London, as a whole, are skewed by the particularly strong performance of central London assets in Q1 of 2014. Whilst retail in core West End and City shopping districts, for example, respectively delivered total returns in excess of 20% and 17% annually, the remainder of London retail, in the same period, posted similar returns to average UK retail property at approximately 10%.

Several reional sub-sectors have delivered total returns comparable (or greater) to the best performing London sectors in Q1 2014. Welsh and Eastern offices, for example, performed marginally better with returns of 6.0% compared with 5.2% in the West End.

Historically, during buoyant economic periods and strong property markets there has often been less of a spread in total returns between different regional markets in the UK. Therefore, if commercial property in the UK continues to perform to the same level for the remainder of 2014, there is a reasonable likelihood of further tightening in regional performance indicators.

Transaction levels increase

Transaction volumes increased in the twelve months preceding Q1 of 2014, marking the third consecutive year-on-year increase in the number of total property investments. During the period, over 50,000 investment purchases occurred in the UK, according to Property Data, the highest number in any similar period since 2007.

Whilst the numbers of commercial property deals are now beginning to reach levels seen during the last peak of the market, there have been significant changes in the type of investor in UK property in the intervening years.

International buyers continue to act as the largest single type of investor in UK property and as a proportion of all investors continue to grow in the long run (although this has diminished slightly in the past two years due to an increase in investment activity on behalf of UK institutions). At the same time, the proportion of property acquired by private individuals and private property companies has diminished significantly over the past decade whilst the proportion of acquisitions by listed property companies has largely remained stable.

The second largest type of property investor, UK institutions (pension funds, life insurance funds etc.) have continued to acquire property assets in proportion with returns, with their long run percentage of total acquisitions generally remaining fixed to market performance.

Outlook

The economic and investment outlook appears to be overwhelmingly positive, characterised by an improving economy and increased investor confidence. This is laying the foundation for continued improvements in returns across prime sectors and many secondary markets, which, until 2013, had seen declining returns in comparison to primary assets.

Overall offices, particularly in primary markets, have been amongst the best performing assets. As well as posting the highest total returns, offices as a whole are recovering at a greater pace than other sectors. That said, this pattern has largely been replicated across the entire property sector (to a slightly lesser degree) indicating both improving financial performances of real estate assets themselves and renewed and growing investor confidence in the market.
We summarise our views of the future performance of the commercial property market in the following section.

Fig 3. Components of total returns Q1 2014
Source: IPD Quarterly Digest

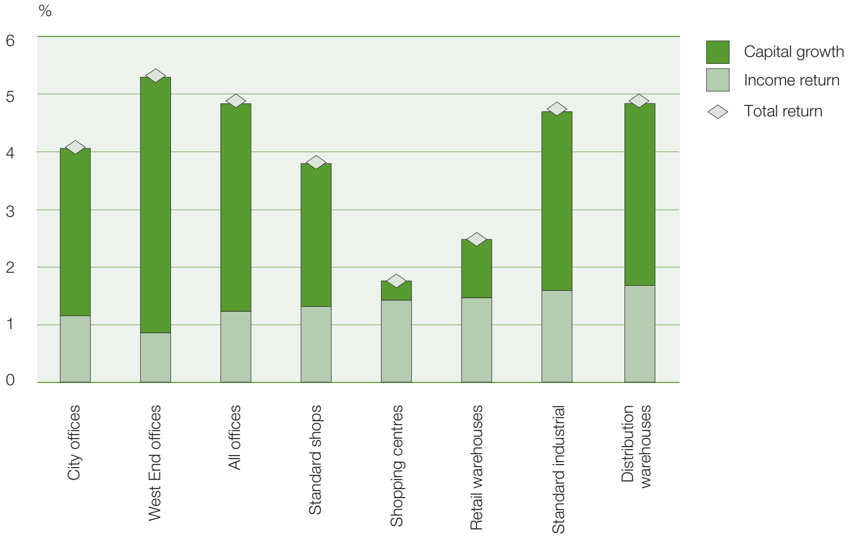
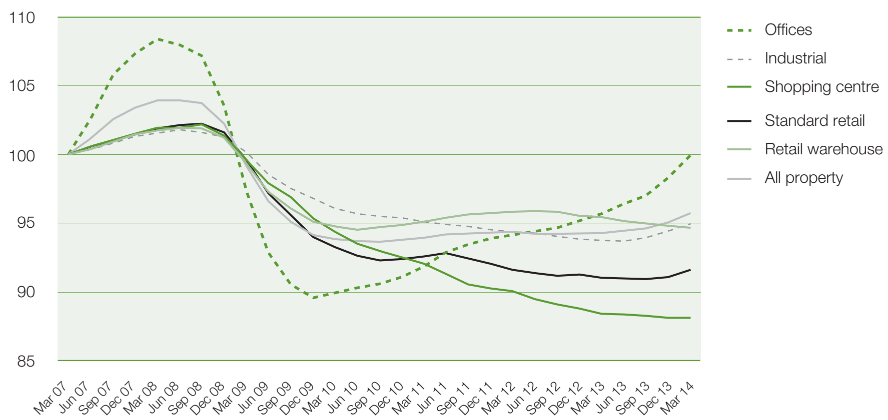


Fig 4. Rental value index (Q1 2007=100)
Source: IPD Quarterly Digest



12.8%

Total return forecast for 2014 (Gerald Eve research)

" City and West End offices will produce the highest returns for 2014 "

FORECASTS

Outlook

We believe the current economic climate, highlighted in the Economy section of Invbrief, is both robust and durable and this is reflected in our property forecasts. A sustained economic recovery in the UK will lead to an increased uptake of space, leading to a fall in available stock and a resulting resurgence in rental growth. Coupled with sustained levels of investor demand leading to falling yields across all sectors, we similarly expect capital growth levels and total returns to perform strongly over the next five years. Therefore, we are predicting double digit total returns in 2014 and 2015 across all property.

As mentioned in the Commercial Property section of Invbrief, competition for limited investment opportunities has impacted on yields. Investors appear to have either become less demanding or have re-assessed the inherent risk premium underlying investment purchases. This begs the question of whether or not investors have pushed property into riskier and overpriced investments, causing the property market to rebound too far and too fast. We believe not.

The recent De Montfort University annual lending report shows that lending to property has been broadly based and that an appetite is starting to emerge for speculative development lending. Furthermore, there has been a cautious and sustainable recovery in lending levels.

Although the market is setting low yields, it is unlikely that this is a result of excessive domestic credit but, more likely, reflects a combination of international investment and a downgrading of property risk premium. This robust state of affairs is set to continue into 2014 as the volume of capital available to invest in the UK commercial property market endures. This is reflected in our total return and rental growth projections, which we believe have a greater upside than downside, particularly for 2014.

Rental growth

We project all property will deliver an average annual rental growth of approximately 2.5%; our rental growth forecasts are marginally more optimistic than the IPF consensus forecasts across the majority of sectors and time periods.

Table 1. Rental growth forecast (%pa)

Sector	2014	2015	2016	Average 2014-18
Standard shops	1.2	2.3	2.4	2.0
	(1.3)	(1.9)	(2.1)	(1.9)
Shopping centres	0.7	2.1	2.2	1.8
	(0.4)	(1.2)	(1.7)	(1.5)
Retail warehouses	1.6	2.3	2.4	2.2
	(0.7)	(1.7)	(2.0)	(1.8)
West End offices	7.5	6.8	6.0	5.0
	(8.6)	(7.4)	(4.8)	(5.1)
City offices	6.5	6.6	5.8	4.4
	(7.9)	(7.3)	(4.2)	(4.5)
Offices (all)	5.0	4.8	4.0	3.7
	(5.8)	(5.3)	(3.8)	(3.9)
Standard Industrials	1.5	1.8	2.0	1.8
Distribution Warehouses	2.0	2.5	2.5	2.1
(All Industrial)	(1.7)	(2.0)	(2.1)	(1.9)
All property	2.3	2.9	2.8	2.5
	(2.4)	(2.7)	(2.5)	(2.4)

Figures in brackets represent IPF Consensus Forecasts, May 2014

Table 2. Total return forecast (%pa)

Sector	2014	2015	2016	Average 2014-18
Standard shops	11.3	9.2	7.4	7.8
	(12.0)	(9.2)	(6.3)	(7.7)
Shopping centres	11.2	9.4	7.6	7.9
	(11.2)	(9.2)	(6.9)	(7.7)
Retail warehouses	10.8	8.9	8.5	8.0
	(12.6)	(9.7)	(7.3)	(8.3)
West End offices	15.5	10.5	7.5	7.9
	(17.0)	(11.6)	(5.5)	(8.0)
City offices	16.0	10.2	7.6	8.2
	(17.0)	(12.0)	(6.1)	(8.4)
Offices (all)	14.0	10.0	7.8	8.5
	(16.5)	(11.3)	(6.9)	(9.0)
Standard Industrials	12.8	10.2	8.7	9.0
Distribution Warehouses	14.6	10.0	8.3	9.2
(All Industrial)	(15.8)	(10.4)	(7.3)	(9.3)
All property	12.8	9.6	7.9	8.3
	(13.7)	(9.7)	(6.9)	(8.3)

Figures in brackets represent IPF Consensus Forecasts, May 2014

We anticipate positive rental growth across all retail sub-sectors over the next three years. We expect this performance to continue until the end of 2018, with retail warehouses marginally outperforming the remainder of the retail sector.

All offices are expected to deliver annual average rental growth rates of 3.7% over the next five year period. Amongst the sector, West End offices likely to show the highest growth over the next three years and prospects for City office rental growth continue to appear favourable.

Distribution warehouses are expected to deliver annual rental growth averaging 2.1% over the next 5 years – a dramatic improvement on the annual average of -1.4% between 2009 and 2013. The corresponding figures for standard industrials are positive with growth rates averaging 1.8% for the next five years, in comparison to -1.5% for the previous five.

Total return

Overseas investor demand for London and South East property continues at unabated levels and currently we see no reason why this should diminish. As a result, we should see a positive effect on capital values driving total returns. Therefore, we anticipate double digit returns in 2014, across all property types.

In 2014 we anticipate that within the office market, City offices, closely followed by West End offices, will produce the highest returns at 16.0% and 15.5% respectively, but expect a fall-off in 2015. Retail is expected to produce double digit total returns in 2014, with standard shops and shopping centres posting similar performance figures at just over 11%.
These returns are expected to tail off in 2015 and 2016, resulting in annual average total returns over the period 2014-2018 at around the 8% mark. Retail warehouses are expected produce a similar performance over the period as the remainder of the retail sector. Notably, average total returns for standard shops and shopping centres over the period 2014-2018 are expected to be marginally better than those for the West End and City office markets.

With relatively little speculative development activity in the industrial sector over the last few years, supply of modern space is set to remain restricted. Over the next five year period, distribution warehouse assets are expected to produce the highest overall annual returns within the sector, albeit from a lower base, averaging 9.2%.

Fig 5. Annual rental growth forecast
Source: Gerald Eve Research, IPD

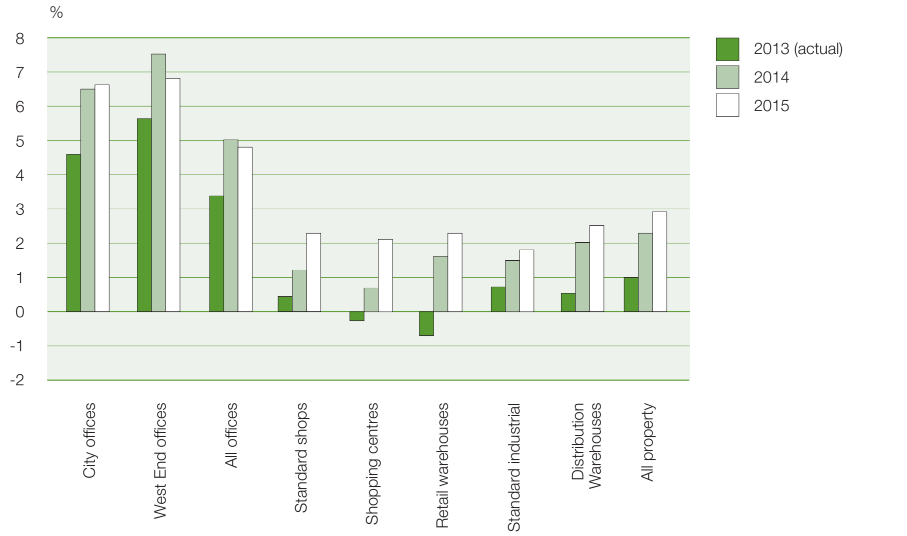
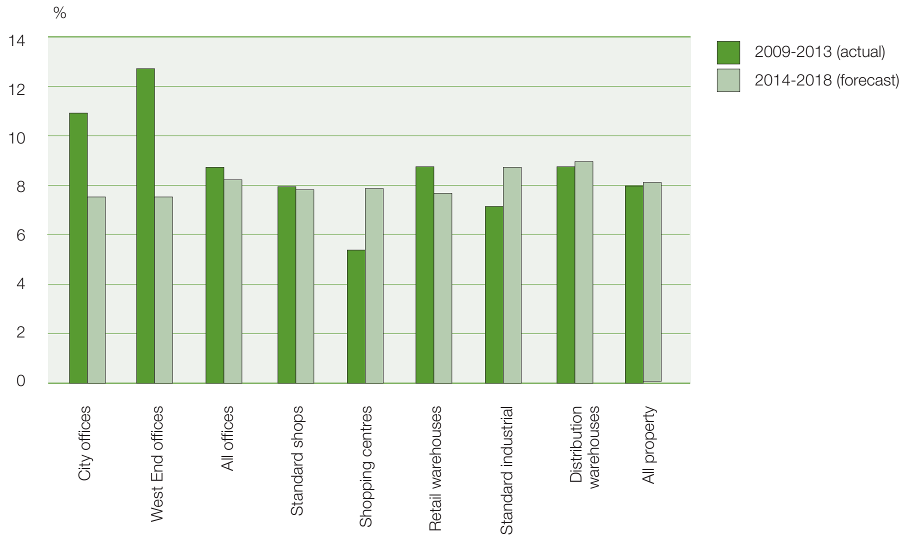


Fig 6. Historic and forecast five-year yr annualised total return
Source: Gerald Eve Research, IPD



£60 psf

City Office Prime Rent (Gerald Eve City Floor Review)

" continued downward pressure on West End office yield as a result of occupier and investor demand and lack of supply "

INVESTMENT

City offices

The City occupational market has experienced a palpable improvement over the past twelve months. A combination of occupier confidence and a shortage of high quality space within the Square Mile has led to a rise in the number of high-value occupational acquisitions. Prime rents now stand at £60 per sq ft and further rental growth is expected for the next 2-3 years.

There have been several high profile occupational leasing agreements which illustrate the recent upturn in the occupational market. The Wallbrook Building and Cannon Place, for example, have witnessed renewed occupier interest and a series of pre-letting agreements have been concluded, including Schroders pre-letting 300,000 sq ft of London Wall Place and Hachette's pre-letting The Carmelite Building in Victoria Embankment.

Encouragingly, take up has increased across sub-sectors of the City market, beyond new-build offices with large lettable areas. Offices with smaller floor areas in the City core have also witnessed an improvement in demand and positive rental drifts.

Like the current occupier market, the City investment market is being driven by increased investor confidence and a lack of investment-grade supply of office space. Prime yields in the City currently stand at 4.8% and further downward pressure is expected over the next twelve months.

Q1 2014 saw the acquisition of 60 Holborn Viaduct by the Berlin Doctors Pension Fund for £245m reflecting a net initial yield (NIY) of 4.8%. Scottish Widows acquired two multi-let City Core properties at the start of the year; 6-8 Tokenhouse Yard for £23m reflecting a NIY of 4.7% and 62 Queen Street for £57.75m reflecting a NIY of 4.6%. This followed two of the largest investment transactions on record in late 2013 with the sale of the More London Riverside Estate and a 50% interest in the Broadgate Estate to sovereign wealth funds, for approximately £1.7bn each.

West End offices

The West End continues to be a key location for global investors and occupiers, with prime yields now below 4.0% and office rental levels in excess of £100 per sq ft Take-up over Q4 of 2013 totalled just over 730,000 sq ft, involving over 250 occupational transactions.

Media, IT and energy firms remain highly active in the occupational market, the later acting as a major factor in driving high headline rents. The continued emergence and growth witnessed in fringe markets such as Southbank and Kings Cross has released some pent-up demand in the core West End market, which in turn is driving investment demand.

That investment market has again seen a record year, dominated by a number of significant transactions, on behalf on international investors. Middle Eastern investors currently account for double the domestic investment volumes and a Spanish investor, Ponte Gadea Immobiliaria, completed the largest transaction in the core West End market in Q4 2013, acquiring Devonshire House, Piccadilly for a reported £410m, reflecting a NIY below 4%.

The high levels of demand witnessed in both the occupational and investor markets, coupled with a lack of available office space indicates that downward pressure on yields and an upwards movement in rental prices will continue for the remainder of 2014. Whilst there remains the long term prospect of investors returning to regional markets as the UK economy, as a whole, improves, there remains a limited probability that this will impact the pricing or liquidity seen in the West End office market, in the medium term.

Regional offices

2014 has seen the resurgence in investor interest in regional office markets, both from overseas investors and UK institutions, driven by the anticipation of a rental recovery and the wide yield gap between London and the regions. The focus in the investment market continues to be on good secondary stock, of which there is little supply – leading to a continuing strengthening of yields. The market has also seen increased demand for Grade B and 'value add' stock, due to the shortage of Grade A office space, leading a number of investors to actively acquire assets for refurbishment.

Key transactions include the sale of Richmond Riverside to Orchard Street – this multi-let office building of 130,000 sq ft with an average weighted unexpired lease term of 5.5 years sold for £64.5m, reflecting a NIY of 4.8%. The last quarter saw SWIP purchase Sunlight House, Manchester for £34.5m, reflecting a NIY of 6.0%, with an average weighted unexpired lease term of 4.6 years.

Retail

Strong retail sales performances have helped to drive demand and investor confidence upwards across the retail sector, which is now steadily improving. The shopping centre market is particularly robust, boosted by a steadier occupier market, stronger economic outlook and a wider availability of financing.

Whilst prime rents remained relatively stable over the past quarter, yields moved down in each retail sub-type, as high street transaction volumes increased and investor interest continues to be focused on London's central shopping and tourist locations. 431-451 Oxford Street, for example was acquired by Tribeca Holdings for £127m reflecting a NIY of 2.8% and 99 Kensington High Street was acquired by Sirosa for £224.6m reflecting a NIY of 4.8%.

High street shops recorded average prime yields of 5.5% in Q1 of 2014, down by 14 basis points. This is the first quarter in four years when high street shop yields declined in all regions. Outside London, the national headline yield for prime shops is currently at 4.5%, having decreased from 4.9% twelve months ago. The Gold 6 Portfolio comprising of seven supermarkets was acquired by Trinity College Cambridge for £493.4m reflecting a NIY of 4.9%.

Q1 2014 also saw shopping centre investment turnover increase 36% on the same period in 2013, rising from £1.4bn to £1.9bn and yields for prime shopping centres and good secondary assets stood at 5.0% and 7.0% respectively. In March The Bullring Shopping Centre in Birmingham was acquired by Hammerson for £307m reflecting a NIY of 5.8%, whilst The Centre: MK in Milton Keynes was acquired by AustralianSuper for £255m, reflecting a NIY of 5.3%.

Fig 7: Historic transaction volumes by property type

Source: Property Data

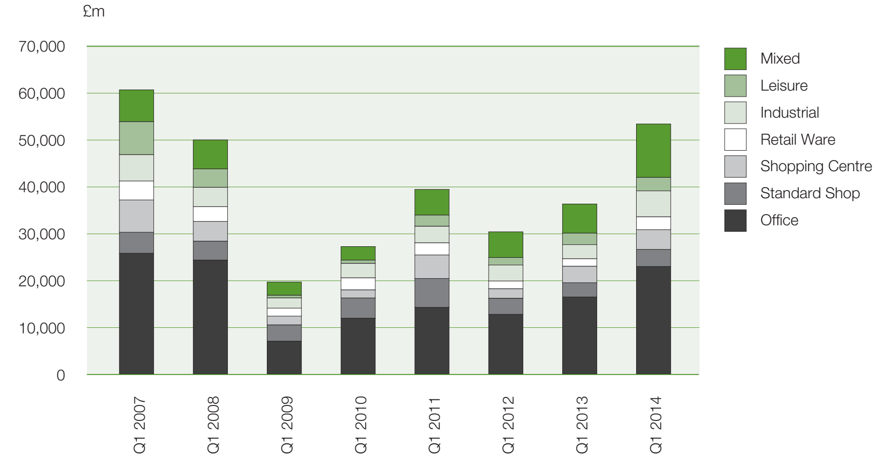
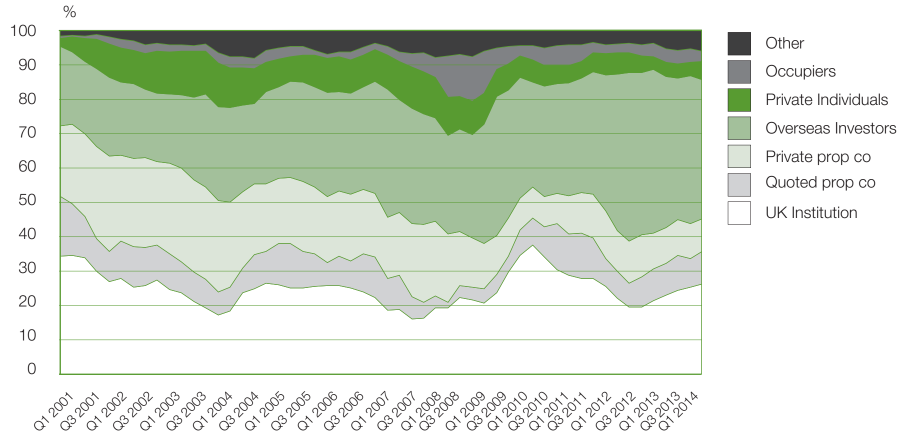


Fig 8: Proportion of acquisitions by investor type (rolling quarterly average)

Source: Property Data



"Institutional grade assets for both the multi-let and logistics sectors continue to be severely limited."

"Transaction volumes for the leisure and hotel sectors continue to increase in part due to merger and acquisition activity."

Industrial

A redistribution of money away from bonds and equities, an improved debt market, increased inflows of capital from overseas buyers and growing pressure on funds to allocate money against stronger income returns, have all combined to create a significant demand for industrial and logistics assets.

Underpinned by a positive occupational market seeing record low availability rates, robust levels of demand, prime rental growth and the return of speculative development, the logistics sector is now witnessing particularly strong levels of investor interest.

With the supply of institutional grade assets continuing to be severely limited across both the multi-let and logistics sectors, this increased investor demand has caused a significant supply and demand imbalance. Inevitably, this has led to yield compression as bidding on assets has become increasingly competitive. New benchmarks for the current cycle have been witnessed in all income streams, regions and qualities during the past six months with prime logistics yields now only some 50 bps off the peak of early 2007.

Key recent long income deals include L&G's purchase of Waitrose's new 938,000 sq ft NDC at Magna Park, Milton Keynes for circa £110m, reflecting a NIY of 4.7% (30 year income) and Iken Trust's acquisition of the Kent County Council warehouse at Aylesford Commercial Park for £13m, reflecting a NIY of 4.7% (25 year income). Notable short income transactions include Tritax's purchase of Next's 755,000 sq ft unit at West Moor Park, Doncaster for £60m, reflecting a NIY of 6.1% (8.75 year income) and Henderson's acquisition of K&N's new 600,000 sq ft RDC for Heineken at Commercial Park, Derby for £46m, reflecting a NIY of 5.8% (10 year income).

Headline deals in the multi-let sector have included L&G's acquisition of Clifton Moor in York for approximately £41m, reflecting a NIY of 6.0% and Standard Life's purchase of Ridgeway Distribution Centre in Iver for £45m reflecting a NIY of 6.6%. Greater London has seen particularly aggressive bidding on the limited opportunities which have become available, including the recent sale of Fairfield Trade Park in Kingston, which is under offer to DTZIM for circa £12.3m, reflecting a NIY of 5.1% and CBREGI's purchase of Heathlands Industrial Estate in Twickenham for £6.4m, reflecting a NIY of 5.6%.

The outlook for the remainder of 2014 is positive and we expect the investment market to be buoyed by continued improvements in the occupational market. Whilst it is likely that an increased supply of stock will enter the market, this will still not match demand and consequently we expect yields to remain relatively low.

Alternatives markets

Alternative sectors performed well over the last quarter, with interest growing across a range of asset types in the alternatives market.

We reported in the last issue of Invbrief, transaction volumes in the leisure and hotel sector continued to increase with a variety of operators and investors looking to acquire, dispose and invest in the sector. In the last six months the hotel sector was dominated by merger and acquisition activity with the sale of Menzies, Akkeron and the mergers of Somerston Hotels with Morethanhotels and Principle Hayley with De Vere Venues.

These mergers and acquisitions are expected to result in increased levels of estates activity as hotel operators seek to expand or consolidate their portfolios. Therefore there is a strong likelihood that a number of direct and indirect investment opportunities in the hotel sector will come onto the market in the near future.

The scarcity of indexed-linked leasehold investments (over 15 years) together with the re-branding and improved trading performance of the company has seen the return of institutional investors to Travelodge investments. The yield gap between Premier Inn and Travelodge linked leaseholds remains significant (albeit compressing), highlighting the high demand for Premier Inn investments – prime yields for Premier Inns in central London remain at an all-time low.

One of the more notable recent pub and restaurant portfolio acquisitions was Mitchells & Butlers' purchase of 173 properties from Orchid Pub Company for a reported £266m. The portfolio comprises of 158 freehold or long leasehold sites, 96 of which will be converted to Mitchell & Butler brands. The high average price of over £1.5m per property in the Orchid portfolio demonstrates investor confidence returning to the sub-sector.

Demand for health and fitness clubs investments continues to remain strong. Gerald Eve recently sold the Virgin Active health club in Northampton for a price of £4.94 million, reflecting a NIY of 6.3%. The property was sold for over 12% more than its original guide price and notably achieved the lowest yield for a rack rented health club outside London in the last five years.

The improved trading conditions in the regional leisure sector, in particular hotels will continue drive further yield compression as opportunistic investors acquire discounted assets and institutional investors are priced out of central London markets.

In the healthcare sector, Legal & General forward funded five care homes in Suffolk on behalf of Care UK, in a transaction reflecting a NIY of 6.8% and a capital commitment in excess of £30 million. More recently, three Orders of St John Care Trust homes have been sold at a NIY estimated to be below 5.5%.

The residential investment sector remains active with institutional and other investors, with the private rented sector a growing area of interest. Investing in any scale still remains a problem, as well as high capital values for private sales making it difficult for the private rented sector to compete. Investors are therefore increasingly looking at non-prime locations for privately rented schemes.

Fig 9. Initial yields by sector
Source: IPD Quarterly Digest

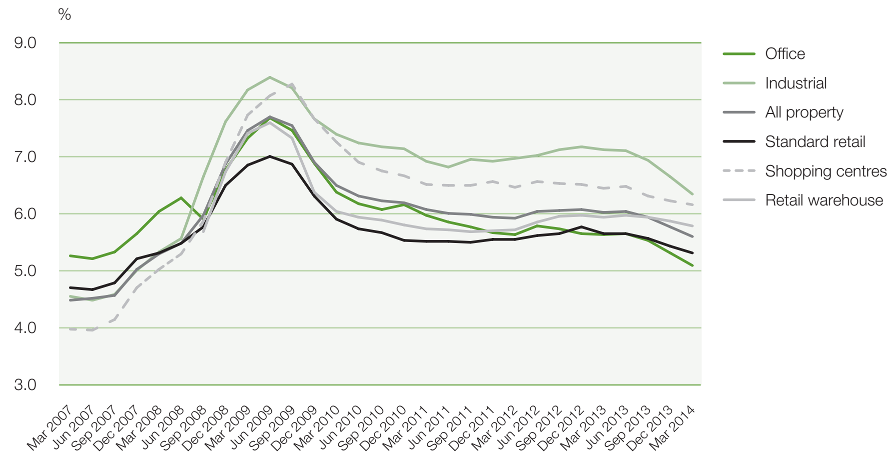


Fig 10. House price indices (Q1 2009=100)
Source: Nationwide, Halifax, Land Registry

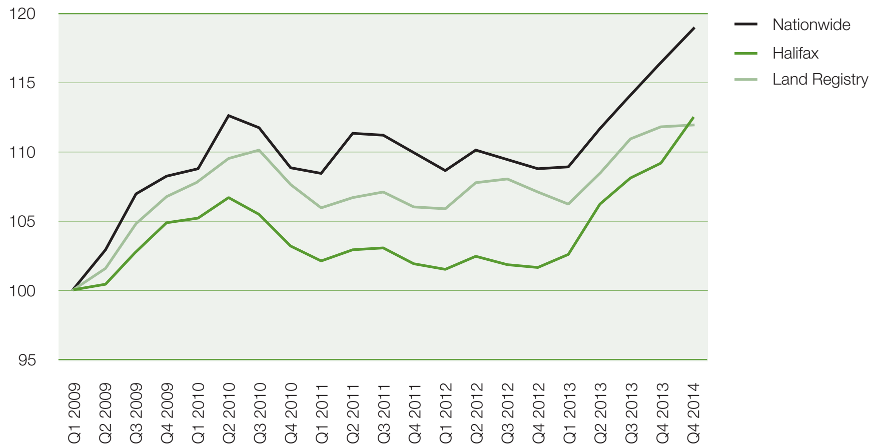


Table 3: Recent leisure investment deals
Source: Gerald Eve Research

Property	Location	Tenant	Sale price	NIY (%)	Tenant
Virgin Active	Cricklewood Lane	London	£13,200,000	4.9	Virgin Active Health Clubs Limited
Odeon Cinema	Hill Street	Richmond	£5,875,000	5.3	Various Including Odeon
Premier Inn	Lansdowne Road	Croydon	£15,500,000	5.5	Premier Inn Hotels Limited
Premier Inn	Marine Parade	Dover	£9,575,000	5.7	Premier Inn Hotels Limited
Odeon	Merry Hill Shopping Centre	Brierley Hill	£7,720,000	6.0	Odeon Cinemas Limited
Travelodge Hotel	Great Ducie Street	Manchester	£14,200,000	6.0	Travelodge Hotels Limited
Travelodge	Copnor Road	Portsmouth	£1,660,000	6.1	Travelodge Hotels Limited
Virgin Active	Collingtree Park	Northampton	£4,940,000	6.2	Virgin Active Holdings Limited
Goals Soccer Centre	Wakerley Road	Leicester	£1,900,000	6.5	Goals Soccer Centre
Hemel Hempstead Gateway Hotel	Maylands Avenue	Hemel Hempstead	£7,650,000	6.7	Various Including Travelodge Hotels Limited, Mitchells & Butlers
Travelodge	Leeds Road	Huddersfield	£2,550,000	7.2	Travelodge Hotels Limited

GERALDEVE

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.

We provide a comprehensive range of services to our private and public sector clients – including more than 40% of the FTSE100 – covering agency, corporate property management, professional and transaction-based 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.

London (West End)
Hugh Bullock Tel. +44 (0)20 7333 6302
hbullock@geraldeve.com

London (City)
Simon Prichard Tel. +44 (0)20 7489 8900
sprichard@geraldeve.com

Birmingham
Alan Hampton Tel. +44 (0)121 616 4800
ahampton@geraldeve.com

Cardiff
Joseph Funtek Tel. +44 (0)29 2038 8044
jfuntek@geraldeve.com

Glasgow
Ken Thurtell Tel. +44 (0)141 221 6397
kthurtell@geraldeve.com

Leeds
Philip King Tel. +44 (0)113 244 8413
pking@geraldeve.com

Manchester
Mark Walsh Tel. +44 (0)161 830 7091
mwalsh@geraldeve.com

Milton Keynes
Simon Dye Tel. +44 (0)1908 685950
sdye@geraldeve.com

West Malling
Andrew Rudd Tel. +44 (0)1732 229423
arudd@geraldeve.com

Useful web links
Gerald Eve research derives some of its information for the production of Invbrief from the following sources:

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

Contact details
If you require any further details of the facts and figures presented in this publication or would like to discuss them, please contact Alex Vaughan-Jones on +44 (0)20 7333 6375 or avaughan-jones@geraldeve.com

Investment agency
Lloyd Davies – offices (London)
Tel. +44 (0)20 7333 6242
ldavies@geraldeve.com

Richard Lines – national
Tel. +44 (0)20 7333 6274
rlines@geraldeve.com

Charles Wilford – leisure
Tel. +44 (0)20 7333 6804
cwilford@geraldeve.com

Peter Haigh – hotels
Tel. +44 (0)20 7333 6286
phaigh@geraldeve.com

Michael Riordan – alternative investment
Tel. +44 (0)20 7653 6828
mriordan@geraldeve.com

Richard Moir – specialist
Tel. +44 (0)20 7333 6281
rmoir@geraldeve.com

Mark Walsh – northern England
Tel. +44 (0)161 830 7091
mwalsh@geraldeve.com

Gerald Eve research
We've been keeping our clients up to date with the latest investment trends for 20 years. It is a co-ordinated effort by the research team, each of whom has their own area of expertise:

Robert Fourt
Tel. +44 (0)20 7333 6202
rfourt@geraldeve.com

Alex Vaughan-Jones
Tel. +44 (0)20 7333 6375
avaughan-jones@geraldeve.com

Sally Bruer
Tel. +44 (0)20 7333 6288
sbruer@geraldeve.com

Steve Sharman
Tel. +44 (0)20 7333 6271
ssharman@geraldeve.com

George Matysiak – consultant

06/14

GERALDEVE