

MARKETBEAT UK INVESTMENT MARKET



MONTHLY BRIEFING

A Cushman & Wakefield Research Publication

MARCH 2013



Prime yields were stable last month, averaging 5.83% across all sectors. This is a 394bp premium to 10 yr bonds, a fact not lost on investors. Demand has increased since the start of the year and a more serious intent is being seen from some players. Indeed, in the search for stock and yield, more investors are

slowly and carefully relaxing their risk controls and activity is increasing as a result, with volumes to-date up 11% on the same time last year thanks to a strong start in the retail market in particular.

Demand is again broadly based. UK funds have been more aggressive in some areas so far this year and have won market share. Overseas demand is also rising however, and a number of important new global pension and sovereign wealth players are set to emerge. Their focus remains London, although regional retail is also of interest in larger centres. Certain UK funds are similarly ready to look towards regional retail and office markets. At the same time, more high net worth individuals are targeting property, drawn by the income as well as perceived long term security, particularly in the West End of London for retail, office and residential.

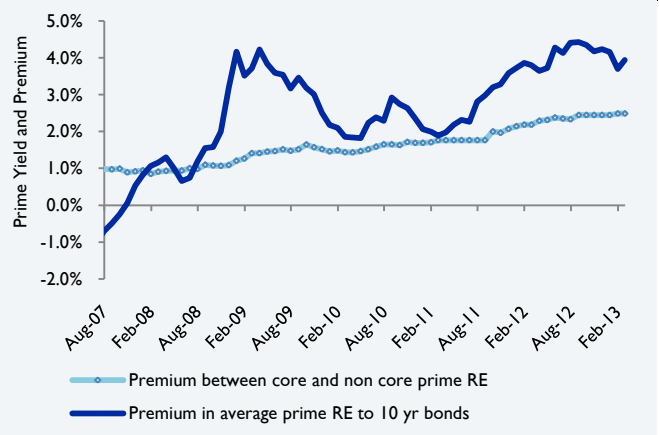
Demand in general is strongly outstripping prime supply, notably for City offices, London and South East shops and open A1 retail parks. At the same time secondary supply is increasing and is ahead of demand in most areas bar the West End.

While more buyers are selectively ready to look towards secondary markets, there is not yet a common agreement on where pricing should be. The main players here are opportunity funds, although REITs are also looking actively at the secondary London market while UK funds are interested in opportunities in the City of London or very selectively in stronger regional shop markets.

Finance availability is another factor holding back secondary markets, but an improved debt supply in general has been noted, with an increasingly competitive market in mezzanine finance and more senior debt funds emerging - although it remains to be seen how selective they will be in their lending policies. Lenders margins are nonetheless under pressure to fall, with a number of examples of senior debt margins at or below 3% recently for example.

Occupational markets remain decidedly mixed meanwhile, with retail the patchiest, as consolidation and closures add to vacancy. At the same time there are areas of stronger activity, such as the trade counter market and Central London retail and some other areas have also seen an improvement, with higher Central London office take-up and certain regional offices seeing improved interest and a possible hardening in incentives. With obvious risks continuing in the macro picture, it is these local indicators of tenant demand which are key to turning improved sentiment into a sustainable rally.

THE PREMIUM IN PRIME YIELDS



SOURCE: CUSHMAN & WAKEFIELD

YIELDS – PRIME PROPERTY

	SHOPS	LONDON OFFICES	INDUSTRIAL	HEADLINE AVERAGE
1950'S	5.5%	7.0%	10.0%	7.5%
1960'S	6.0%	6.6%	9.5%	7.3%
1970'S	5.6%	5.9%	7.7%	6.4%
1980'S	3.9%	5.1%	7.1%	5.3%
1990'S	4.7%	5.5%	7.4%	5.8%
2000'S	4.9%	5.3%	5.9%	5.4%
2010'S	4.8%	4.6%	6.1%	5.1%
1950-2013	5.1%	5.8%	7.8%	6.2%
FEB 2013	4.8%	4.3%	6.0%	5.0%
PREMIUM TO HISTORY	-32bp	-155bp	-184bp	-124bp

SOURCE: CUSHMAN & WAKEFIELD

YIELDS – OTHER INVESTMENT SECTORS

	15 YEAR GILTS	BASE RATES	EQUITIES	INFLATION RPI
1950'S	4.5%	4.0%	6.5%	4.2%
1960'S	6.7%	6.3%	4.5%	3.7%
1970'S	12.0%	9.6%	5.3%	12.7%
1980'S	11.1%	11.7%	4.8%	7.4%
1990'S	7.9%	7.8%	3.9%	3.7%
2000'S	4.6%	4.3%	3.2%	2.6%
2010'S	3.2%	0.5%	3.3%	4.2%
1950-2013	7.6%	6.9%	4.6%	5.6%
FEB 2013	2.5%	0.5%	3.3%	3.3%
PREMIUM TO HISTORY	-503bp	-642bp	-130bp	-234bp

SOURCE: CUSHMAN & WAKEFIELD, FT, NATIONAL STATISTICS, RPI to January only.

CURRENT PRIME MARKET YIELDS

		2007 LOW	2009 HIGH	2012 DEC	2013 JAN	2013 FEB	CHANGE ON MONTH	FUTURE TREND
SHOP UNITS	Prime Central London	4.00%	5.25%	4.00%	3.75%	3.75%	-	→
	Prime Retail Centres	4.00%	6.00%	4.75%	4.75%	4.75%	-	→
	Large metropolitan Cities	4.00%	6.75%	5.50%	5.50%	5.50%	-	→
	Regional Centres	4.25%	6.75%	5.75%	5.75%	5.75%	-	→
	Strong Market Towns	4.50%	7.25%	6.50%	6.50%	6.50%	-	→
	Smaller Market Towns	5.00%	7.50%	7.50%	7.50%	7.50%	-	→
	Secondary Retail	5.25%	8.50%	10.00%	10.00%	10.00%	-	→
SHOPPING CENTRES	Regional Dominant	4.50%	7.00%	5.50%	5.50%	5.50%	-	↘
	Sub-regional	4.75%	7.50%	7.00%	7.00%	7.00%	-	→
	Major Urban Centres	5.00%	8.50%	8.00%	8.00%	8.00%	-	→
	Small Urban Centres	5.50%	9.50%	9.50%	9.50%	9.50%	-	→
RETAIL WAREHOUSES	Shopping Parks	3.75%	7.00%	5.25%	5.25%	5.25%	-	→
	Open Consent Parks	3.75%	8.00%	5.50%	5.50%	5.50%	-	→
	Bulky Goods Parks	4.75%	9.25%	6.50%	6.50%	6.50%	-	→
	Solus Units	4.50%	8.75%	6.65%	6.65%	6.65%	-	→
	Supermarkets	3.75%	6.00%	4.50%	4.50%	4.50%	-	→
OFFICES	Prime London West End	3.75%	6.00%	4.00%	3.75%	3.75%	-	→
	Prime London City	4.25%	6.50%	5.00%	4.75%	4.75%	-	→
	Thames Valley	4.75%	7.75%	6.25%	6.25%	6.25%	-	→
	Regional CBD – Major Cities	4.50%	7.50%	6.25%	6.25%	6.25%	-	↗
	Regional CBD – Secondary Cities	4.75%	7.75%	7.50%	7.50%	7.50%	-	↗
	Regional Out of Town	5.25%	9.00%	8.50%	8.50%	8.50%	-	→
WAREHOUSE & INDUSTRIAL	Distribution Warehouses	5.00%	7.75%	6.00%	6.00%	6.00%	-	→
	Industrial Estate – South East	4.50%	8.00%	6.00%	6.00%	6.00%	-	→
	Industrial Estate – Regional	5.00%	9.00%	7.25%	7.25%	7.25%	-	↗

NOTE: THE FIGURES INCLUDED IN THE TABLE INDICATE THE VIEWS OF CUSHMAN & WAKEFIELD'S CAPITAL MARKETS TEAM AND RELATE TO THE VERY BEST PRIME PROPERTY IN EACH MARKET CATEGORY. ALL RATES ARE FOR ILLUSTRATIVE PURPOSES ONLY.

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