UKIT

UK Investment Transactions Bulletin Q3 2015

Lambert Smith Hampton

www.lsh.co.uk

Investment in the regions ahead of London

- **Q3 investment volume was £12.8bn,** down 23% on Q2's level, but 10% above the five-year quarterly average. This was the third successive quarterly decline, and suggests the market is returning to the long term average level of activity.

- **The average lot-size fell from £35m in Q2 to £24m in Q3,** reflecting a reduction in major overseas deals. While Q3 volume was down, the number of deals was 8% greater than in Q2

- **Regional volume exceeded London's for only the second time in five years.** While volume in London declined 25% quarter-on-quarter, investment in the regions increased by almost 50%.

- **The All Property transaction yield moved in by a further 14 basis points** during Q3 to stand at 5.55%, its lowest level since Q4 2007. Of the core sectors, offices saw the strongest inward movement to stand at 4.52%.

- **Volume in non-core sectors and portfolios fell sharply compared to recent activity.** Investment in the specialist sectors fell 78% short of Q2 and portfolios were down 68%. In contrast, core assets remained relatively stable, down 8% on the previous quarter.

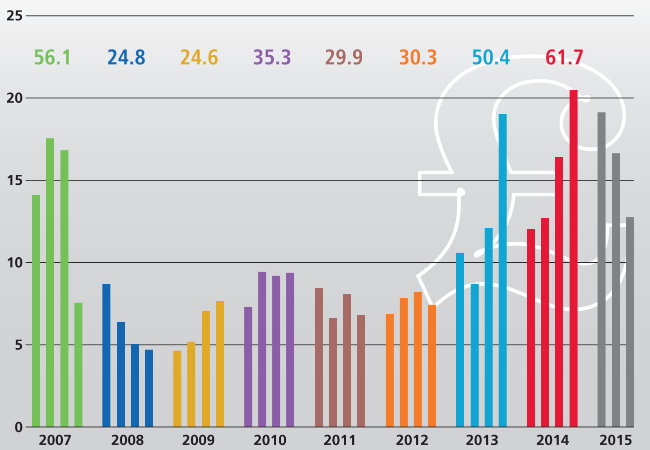
- **Retail warehouses had its strongest quarter since Q3 2007**, attracting £1.2bn of investment. This fed through to strong regional activity, notably in Yorkshire & Humber, which recorded its highest quarterly volume on record.

- **UK institutions were net disinvestors for the first time since Q2 2012**, with a number of key institutions appearing to cash-in, specifically within London. Overseas investors continue to hold their position as the largest net buyer of UK property.

Investment volume Q3 2015, £bn

Sectors	Q3 15	vs Q2 15	vs Q3 14
Shops	£0.78	-40%	-31%
Shopping Centres	£1.02	-21%	-18%
Retail Warehouses	£1.23	74%	
All Retail	**£3.03**	-8%	-16%
Central London Offices	£3.69	-10%	14%
Rest of South East Offices	£0.70	-13%	-18%
Rest of UK Offices	£0.94	49%	46%
Office Parks	£0.48	-26%	-48%
All Office	**£5.81**	-6%	2%
South East Industrial	£0.08	-59%	-68%
Rest of UK Industrial	£0.27	-56%	-59%
Distribution Warehouses	£0.93	38%	15%
All Industrial	**£1.28**	-14%	-26%
Hotels & Leisure	£1.37	-33%	-47%
Specialist	£0.45	-78%	-71%
Mixed-use (single assets & portfolios)	£0.83	-48%	-36%
All Property	**£12.76**	-23%	-22%

UK investment market activity, £bn



Source: LSH Research, Property Archive, Property Data

Sector focus

On face value, the third successive drop in volume suggests the investment market is losing momentum. However, while Q3 volume was down 23% on Q2, the number of transactions was up 8% above the previous quarter and the five-year average.

Sharp fall in specialist sector investment

The brunt of Q3's fall in volume was accounted for by a sharp fall in portfolio deals, particularly within the specialist sectors. Collectively, specialist sectors accounted for only 14% of total volume in Q3, down from over 30% during the first half of 2015.

While volume in the three core sectors was only 8% down quarter-on-quarter, investment in the specialist sectors was down 78%. For example, student accommodation investment totalled £0.3bn Q3, down from £1.4bn in Q2.

Similarly, investment in hotels & leisure investment declined by 33% quarter-on-quarter, to £1.4bn in Q3. This figure included Q3's second largest deal: HK CTS Metropark Hotels' £400m purchase of the Kew Green Hotel portfolio from Goldman Sachs and TPG Special Situations.

Retail warehouse investment at eight year high

While all retail volume was 8% down on Q2, retail warehouses reached £1.2bn in Q3, its highest quarterly total since Q3 2007. A number of a large assets changed hands, including Legal & General's £110m acquisition of Birstall Retail Park, Leeds (NIY 6.52%) from Albany Courtyard; and Redefine International's purchase of six assets throughout the UK for £189m.

Distribution warehouses drive industrial volume

Investment into industrial was down 14% on the previous quarter, with 75% of volume comprising distribution warehouses. Stand-out deals included UK CPT Ltd's £67m purchase of Ventura Park, Hertfordshire from SEGRO Plc (NIY 6.0%) and Tritax Big Box's purchase of two assets in the East Midlands and Yorkshire & Humber for £67m and £59m respectively.

Price growth continues

The All Property transaction yield hardened for the fourth consecutive quarter in Q3 to 5.55%, its lowest level since Q4 2007. Offices saw the strongest inward movement of the core sectors, to stand at 4.52%, albeit skewed by Central London offices.

Prime yields remained broadly stable with two exceptions in Q3. The prime regional office yield hardened to 4.75%, reflecting a 25bps fall in the Manchester market. Meanwhile, the prime South East industrial yield also moved in by 25 basis points in the quarter to 5.25%.

Yields

Sector	Transaction yields: Q3 2015	Transaction yields: 3 month movement (b.p.)	Transaction yields: 12 month movement (b.p.)	Prime yields: Q3 2015	Prime yields: 3 month movement (b.p.)	Prime yields: 12 month movement (b.p.)
Shops	4.82%	21	-7	4.25%	◄►	-25
Shopping Centres	6.34%	-124	-71	5.25%	◄►	-25
Retail Warehouses	6.53%	61	72	4.25%	◄►	-25
All Retail	**6.02%**	-16	◄►	–	–	–
Central London Offices	3.25%	-86	-145	3.25%	◄►	-50
Rest of South East Offices	6.90%	99	-63	5.00%	◄►	-25
Rest of UK Offices	6.71%	35	25	4.75%	-25	-50
Office Parks	6.95%	2	-58	5.25%	◄►	-25
All Office	**4.52%**	-32	-111	–	–	–
South East Industrial	5.97%	8	9	5.25%	-25	-50
Rest of UK Industrial	7.46%	76	-131	6.00%	◄►	-25
Distribution Warehouses	6.10%	12	-46	4.25%	◄►	-50
All Industrial	**6.35%**	25	-38	–	–	–
Hotels & Leisure	6.58%	116	-17	5.50%	◄►	◄►
Specialist	5.36%	14	-108	5.00%	◄►	-75
Mixed-use (single assets & portfolios)	4.59%	-132	-268	–	–	–
All Property	**5.55%**	-14	-58	–	–	–

Source: LSH Research, Property Data, Property Archive

*Sub regional centres **Student accommodation (Regional, direct-let)

Regional focus

For only the second quarter in five years, investment volume in the regions exceeded London. While volume in London fell 25% quarter-on-quarter, activity for single assets elsewhere increased by almost 50% to reach £5.6bn.

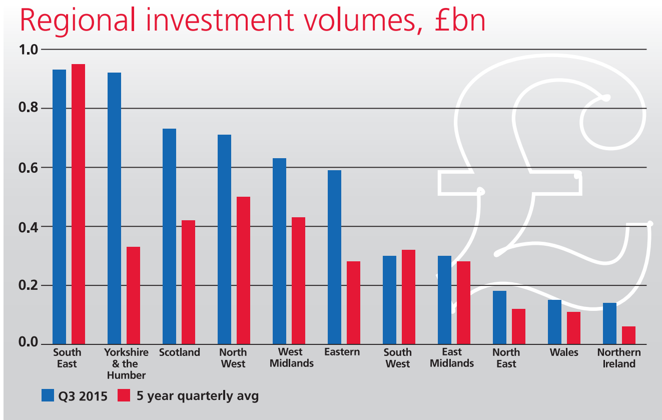
Retail warehouses and offices spur regional volume

Investment in retail was key to regional volume in Q3, reaching £2.0bn, over half of which was retail warehouses. Yorkshire & Humber saw a record quarterly volume of £0.9bn, a figure which included eight retail warehouse deals totalling £0.4bn. Of these, the largest was BMO Real Estates Partners' £175m purchase of Parkgate Retail Park, Rotherham from Hercules Unit Trust.

Q3 saw £1bn of offices change hands in the regions, 70% above the five-year average. The West Midlands accounted 40% of the total, and was home to Q3's largest regional office deal; overseas buyer Ashby Capital purchased Colmore Plaza, Birmingham from Carlyle Group for £140m (NIY 6.00%).

A reduction in overseas volume impacts on London

London saw volume of £5.4bn in Q3, its lowest quarterly total since Q1 2014. While the number of deals was almost exactly in line with the previous quarter, the average lot-size in London reduced from £54.9m to £41.3m. This largely reflected reduced volume from overseas buyers, whose investment into the capital was down 31% quarter-on-quarter.



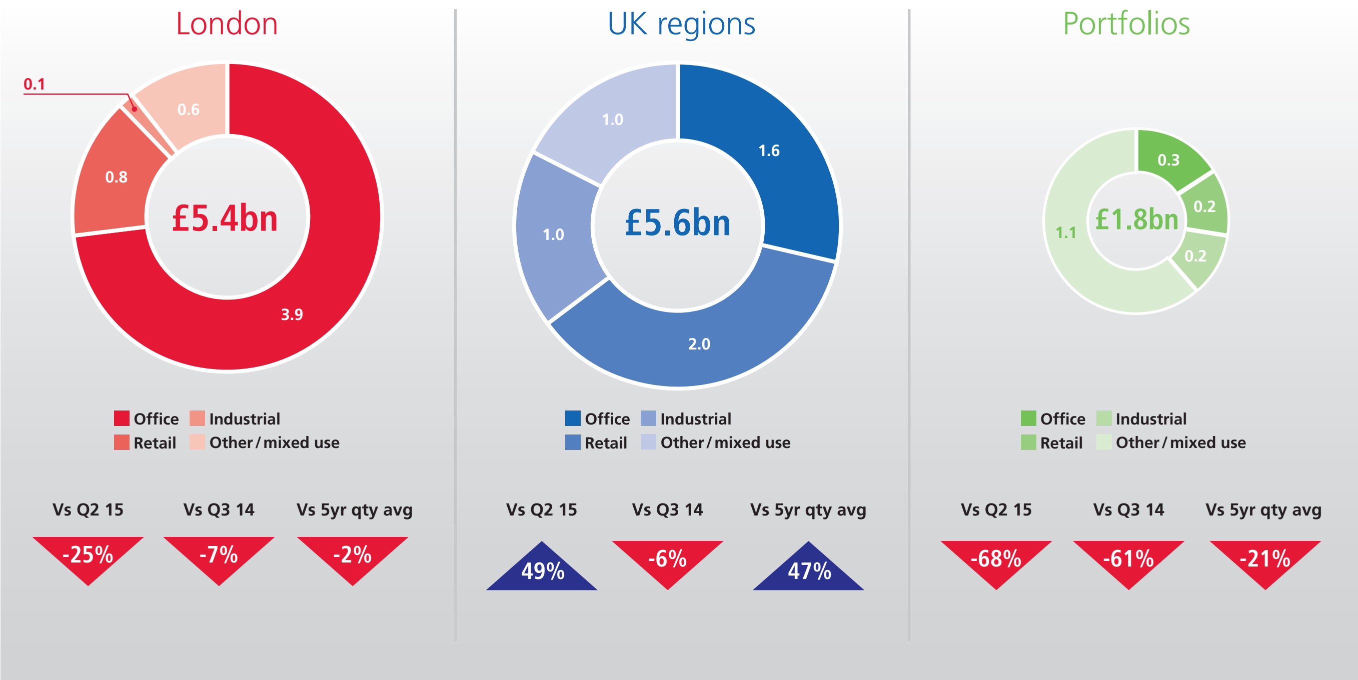
Source: LSH Research, Property Data, Property Archive

London was nevertheless home to Q3's largest deal, namely Almacantar's £550m forward purchase of the office developments at One and Two Southbank Place from Braeburn Estates, a joint venture between Canary Wharf and Qatari Diar. This is the largest property deal ever completed on the South Bank.

Portfolio activity reduces

Following record volume for portfolios in the first half of the year, activity reduced significantly in Q3. Portfolio investment totalled £1.8bn in Q3, down 68% quarter-on-quarter and 21% below the five-year average. This partially stems from the absence of major portfolio deals in the non-core sectors, which reached £4.1bn in Q2 and a mere £1.1bn in Q3.

Q3 2015 London and regional breakdown, £bn



Source: LSH Research, Property Archive, Property Data

Buyers and sellers

UK institutions were net disinvestors in Q3, with a number of key institutions appearing to cash-in on recent price rises. Meanwhile, despite a sharp fall in overseas investment, overseas buyers retained their position as the largest net purchaser of UK property.

Institutions are net disinvestors

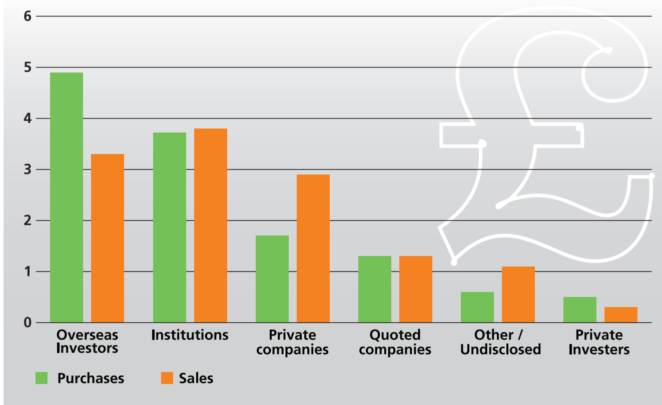
For the first quarter in over three years, UK institutions sold more than they bought in Q3, albeit marginally. There was a geographical dimension to this, with institutions selling out of London by a net £304m while buying in the regions by a net £123m. Notable net-sellers included M&G and Aberdeen Asset Management, at £107m and £295m respectively, while Legal & General was the clear exception, with net buying of £650m.

Quoted property companies also appeared to be selling off London property, with £640m of net sales of Central London offices in Q3. REITS bought only two Central London offices in Q3; Derwent's £132m purchase of Aldgate Union and Redefine's £31m purchase of 16 Grosvenor Street.

Reduction in major overseas deals

While overseas investment declined by 43% during Q3 to stand at £4.9bn, net overseas investment was actually on a par with Q2, at £1.6bn. The reduction was most apparent from North America, with investment down from £4.7bn in Q2 to £1.2bn in Q3.

Q3 2015 activity by type of investor, £bn

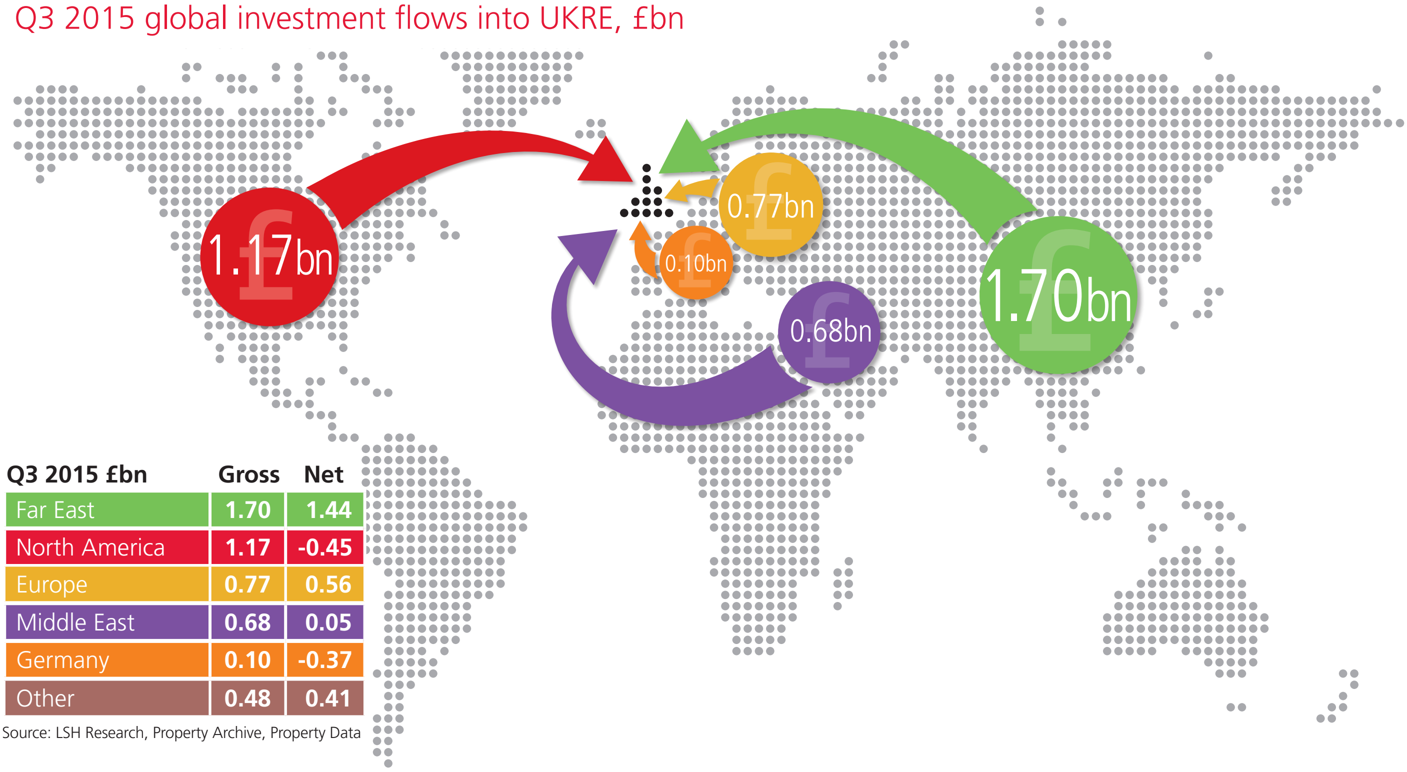


Source: LSH Research, Property Archive, Property Data

The Far East committed the lion's share of overseas investment in Q3, purchasing £1.4bn worth of UK assets. Indeed, of Q3's ten largest deals, four were bought by Far Eastern investors. This included the Kew Green Hotel portfolio deal and Sinar Mas Land's £280m acquisition of the Alphabeta EC2 (NIY 4.00%).

The reduction in major overseas deals pulled the average lot-size across the market down from £35m in Q2 to £24m in Q3. Overseas investors bought six assets in excess of £200m in Q3, compared with 15 in the previous quarter.

Q3 2015 global investment flows into UKRE, £bn



Q3 2015 £bn	Gross	Net
Far East	1.70	1.44
North America	1.17	-0.45
Europe	0.77	0.56
Middle East	0.68	0.05
Germany	0.10	-0.37
Other	0.48	0.41

Source: LSH Research, Property Archive, Property Data

Outlook

Cue another record year in 2015?

Despite a third successive reduction of quarterly volume, 2015 is on course to be a new record year for the investment market - volume in Q4 only needs to be marginally ahead of the ten-year quarterly average to surpass 2014's record of £61.7bn. With £600m of shopping centres under offer and several large portfolios poised to go on the market, it would be brave to bet against it.

However, braver still would be to bet on 2016 volume matching that of the last two years. Far from implying a crash in activity, volumes are expected to come back into line with average levels next year. This reflects a greater propensity among investors to hold and asset manage their investments, rather than trade them.

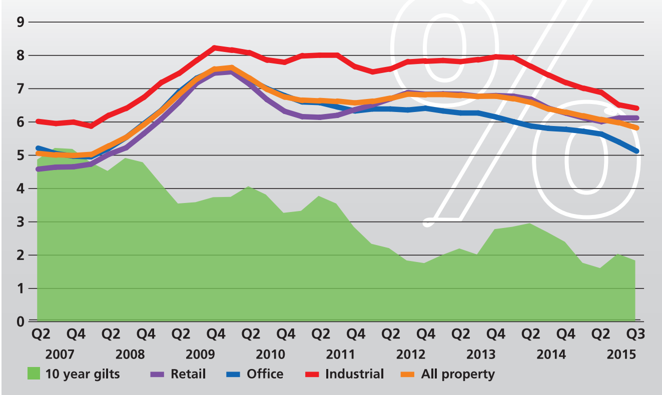
Another year of rising values

An increasingly debated topic, at least within the property investment community, surrounds values, and just how much further they can rise. Several key factors support a continuation of rising values over the next 12 months:

- The ongoing weight of money targeting UK property, from both overseas and institutional investors, combined with a limited supply of stock, will continue to put pressure on pricing. Q3's marginal net disinvestment from institutions reflects an increasing emphasis away from London assets and into the regions, rather than the start of a withdrawal from property.

- While prime yields are either at or close to their historic lows across most sectors, the four percentage point gap between average property yields and gilt yields suggests property continues to offer relative value.

Rolling annual transaction yields, %



Source: LSH Research, FT

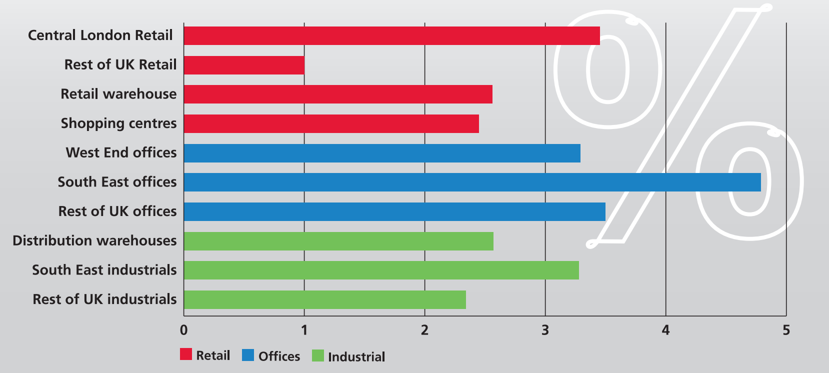
- As yield compression eases, rental growth will be the main contributor to capital growth. All Property rental growth has climbed to a new high 4.1% over the 12 months to September 2015, its highest rate in 15 years. The revival of rental growth will continue to attract investors into higher yielding asset management and development opportunities.

Finding value is the main challenge

The main risk to unravelling the status quo is the timing and magnitude of interest rate rises. While most commentators are now pencilling in a first hike in late-2016, the current 'noflation' environment puts the MPC under little pressure to raise rates as things stand. Moreover, consensus suggests rates will peak at around half their level from the last cycle.

So, with some justification that property yields will remain low by historic standards, the main challenge for domestic investors is finding value in the market. Encouragingly, with rental growth forecast to continue for at least the next few years, the key for investors will be to identify the best opportunities for growth, sectorally and geographically.

Rental growth forecasts 2016-2019 (% p.a.)



Source: RES

About us

We are a commercial property consultancy working with investors, developers and occupiers in both the public and private sectors across the UK and Ireland.

Amazon to Zurich: we have partnerships with the complete A to Z of the best organisations in Britain and Ireland.

Transport to telecoms: we have experience of an extremely wide range of sectors.

Capital markets to construction consultancy: we serve an incredibly diverse range of commercial property disciplines.

We value lateral thinking and celebrate enterprise, with a focus on delivering more for our clients. By looking beyond the obvious, we consistently generate impressive results.

For further information please contact:

Ezra Nahome
CEO
+44 (0)20 7198 2222
enahome@lsh.co.uk

Paddy Brennan
Head of Capital Markets
+44 (0)28 9026 9206
pbrennan@lsh.co.uk

Nick Lloyd
Director – London
+44 (0)20 7198 2221
nlloyd@lsh.co.uk

Oliver du Sautoy
Head of Research
+44 (0)20 7198 2193
odusautoy@lsh.co.uk

Darren Sheward
Director – Bristol
+44 (0)117 914 2041
dsheward@lsh.co.uk

Adam Ramshaw
Director – Birmingham
+44 (0)121 237 2395
aramshaw@lsh.co.uk

Donall McCann
Director – Belfast
+44 (0)28 9026 9220
dmccann@lsh.co.uk

Abid Jaffry
Director – Manchester
+44 (0)161 242 7099
ajaffry@lsh.co.uk

Ewen White
Director – Glasgow
+44 (0)141 226 6777
ewhite@lsh.co.uk

Andrew Shiells
Director – Edinburgh
+44 (0)131 226 0333
asheills@lsh.co.uk

www.lshinvestmentsales.co.uk

Our national office network

Belfast
Tel: +44 (0)28 9032 7954

Birmingham
Tel: +44 (0)121 236 2066

Bristol
Tel: +44 (0)117 926 6666

Cambridge
Tel: +44 (0)1223 276336

Cardiff
Tel: +44 (0)29 2049 0499

Chelmsford
Tel: +44 (0)1245 215521

Dublin
Tel: +353 (0)1 673 1400

Edinburgh
Tel: +44 (0)131 226 0333

Exeter
Tel: +44 (0)1392 880 180

Fareham
Tel: +44 (0)1489 579579

Galway
Tel: +353 (0)91 865 333

Glasgow
Tel: +44 (0)141 226 6777

Guildford
Tel: +44 (0)1483 538181

Leeds
Tel: +44 (0)113 245 9393
Tel: +44 (0)113 245 8454

Leicester
Tel: +44 (0)116 255 2694

Liverpool
Tel: +44 (0)151 236 8454

London
Tel: +44 (0)20 7198 2000
Tel: +44 (0)20 7955 8454

Luton
Tel: +44 (0)1582 450444

Maidenhead
Tel: +44 (0)1628 676001

Manchester
Tel: +44 (0)161 228 6411
Tel: +44 (0)161 833 1197

Milton Keynes
Tel: +44 (0)1908 604630

Newcastle upon Tyne
Tel: +44 (0)191 232 6291

Northampton
Tel: +44 (0)1604 664366

Nottingham
Tel: +44 (0)115 950 1414

Oxford
Tel: +44 (0)1865 200244

Reading
Tel: +44 (0)118 959 8855

St Albans
Tel: +44 (0)1727 834234

Sheffield
Tel: +44 (0)114 275 3752

Solent
Tel: +44 (0)2380 461 630

Southampton
Tel: +44 (0)23 8033 0041

Swansea
Tel: +44 (0)1792 702800

Details of Lambert Smith Hampton can be viewed on our website www.lsh.co.uk
Due to space constraints within the report, it has not been possible to include both imperial and metric measurements.

Lambert Smith Hampton

www.lsh.co.uk