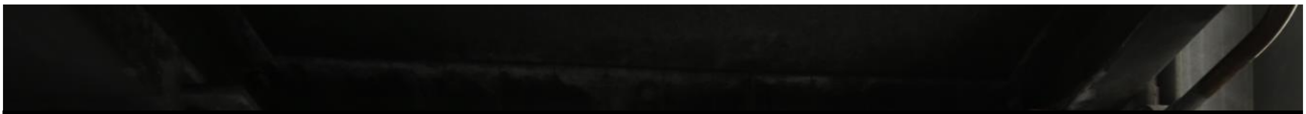

Annual Review

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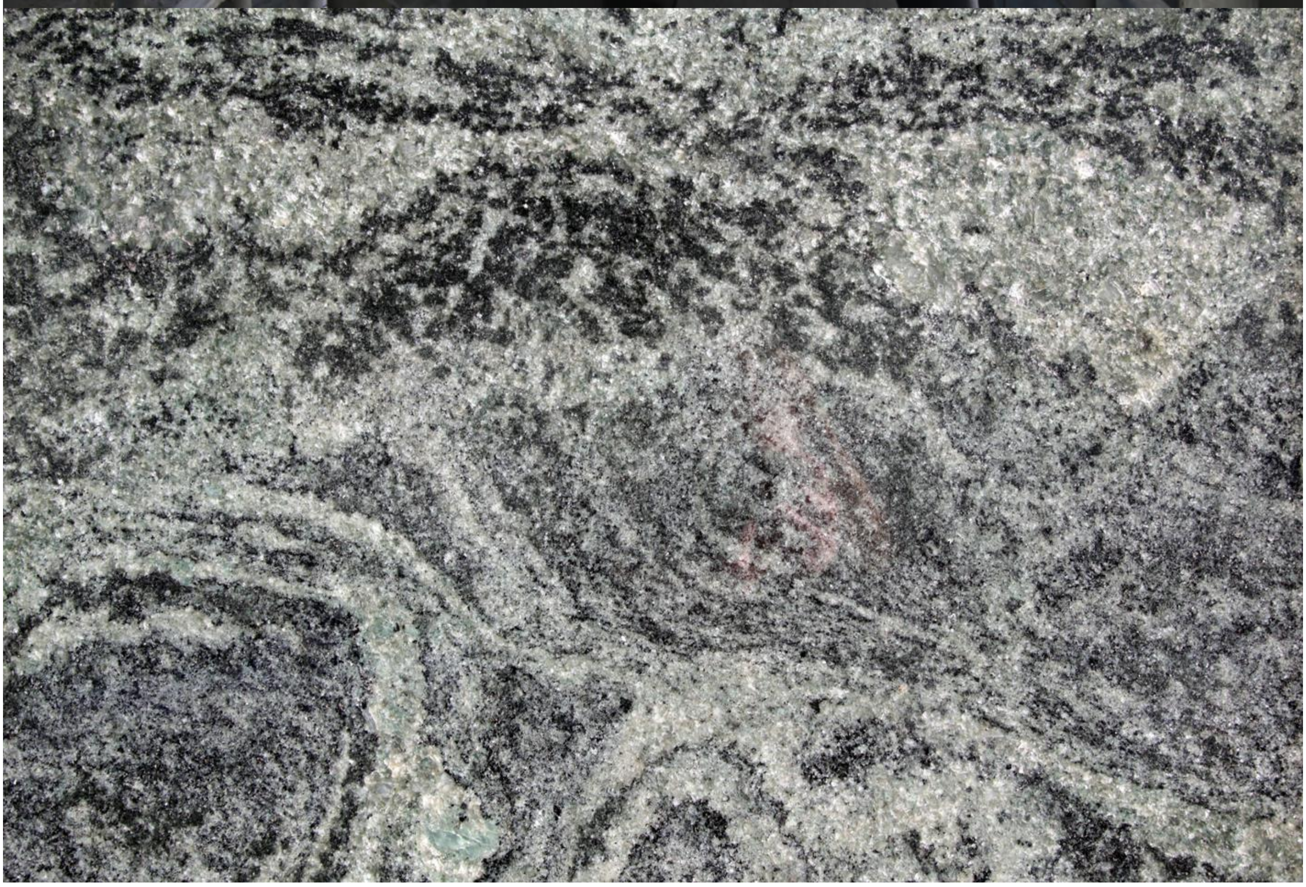
Riverside CAPITAL

THE PROPERTY INVESTMENT PEOPLE



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2013 In review

Economic Overview

The global economic recovery gathered pace in 2013 as central banks across the world kept the "money tap" open and interest rates at historically low levels. By the end of the year we finally saw signs that unconventional monetary policy was working and, seven years after the onset of the global economic and financial crisis, the global economy looks geared to deliver trend growth of 3.5% to 4% in 2014.

At the start of 2013, we came into a new year with the overhang of economic worry surrounding Europe, along with concerns about the US government going over the so called 'fiscal cliff'. Failure to reach an agreement could have led to the technical default of the US government on its debts, ensuring a major crisis in international financial markets.

The biggest concern, however, surrounded the uncertainty as to when the US Federal Reserve, along with other major central banks, would begin to slow their bond-buying schemes, following five years of purchasing billions of dollars of government bonds.

This uncertainty was tested in May when the Federal Reserve's chairman, Ben Bernanke, took markets by surprise by indicating that its quantitative easing programme may be tapered on the back of evidence that the US economy was recovering at a faster pace than expected. The prospect of a Fed cutback in bond buying riled financial markets as investors once again went into "risk-off" mode.

The final quarter of 2013 saw a revival in risk appetite, with equity markets reaching new highs. Just as investors had started to factor in US QE tapering, improved economic data and reduced risks to the outlook for economic activity in the US enabled the Fed to announce a reduction in asset purchases by $10 billion/month, starting in January 2014.

Fixed income yields began to rise as optimism about the global economic recovery increased and politicians in the US reached an agreement over the debt ceiling, bringing an end to the shutdown which had paralysed government.

UK Economy

2013 was a year that took economists and investors by surprise. The year commenced with the UK losing its coveted triple A rating and with the prospect of a positive economic recovery a long way away, the forecast for 2013 gross domestic product (GDP) growth was halved from 1.2pc to 0.6pc.

Leading into the second quarter many commentators were even more pessimistic, with Capital Economics estimating a rise on GDP of just 0.2%. Further, there was the ongoing concern that Q1 numbers would show a second successive period of decline in the economy, resulting in an unprecedented triple-dip recession.

In an attempt to stimulate growth via the housing market, the government announced a £15bn package of measures to support homebuyers:

– The Funding for Lending scheme provided banks with cheap state-backed funding on around £80bn of loans, reducing costs by about £800m a year. This allowed lenders to pass the gains on to mortgage customers in the form of cheaper rates.
– Help to Buy was also introduced; a scheme designed to allow would-be buyers with a 5% deposit to buy a home.

These schemes provided a massive boost to the housing market as house prices rose at a pace not seen since the economic crisis and the banks showed a renewed appetite to lend.

As it transpired, concerns regarding another quarter of negative growth were unfounded; newly revised figures from the Office of National Statistics (ONS) showed that the UK economy grew by 0.3% in the first quarter of 2013. In addition, a later revision to 2008 GDP data led the 2012 “double-dip” recession to be revised away.

Britain’s economic recovery is now picking up momentum. Strong levels of growth and falling inflation have initiated increased business confidence, falling unemployment and rising demand for mortgages. The International Monetary Fund has also upgraded its growth predictions for the UK economy, the third in a row from the fund.

The speed at which the UK economy recovered to become, on some accounts, one of the fastest growing large developed economies has raised a dilemma for the Bank of England (BOE).

Mid-way through 2013, Mark Carney (governor of the BOE) implemented the policy of forward guidance and suggested that rates would remain on hold until the unemployment rate had fallen to 7% (at the time predicted to be 2016 at the earliest).

Unemployment has subsequently fallen faster than expected, and may well have hit the 7% mark at the end of 2013. This raises the possibility that rates will have to go up sooner than expected and the question as to whether or not the BOE will have to "move the goalposts" and change the interest rate forward guidance.

UK Commercial Property

The last few years have seen investors increase their allocations to commercial property as the search for yield intensifies. Low interest rates and government quantitative easing programmes have created a low-yield environment in which investors have struggled for returns across many asset classes.

The improved economic backdrop and greater stability in the Euro area has boosted property investment activity, with the commercial real estate market seeing significant inflows in 2013. Data from CBRE shows that Investment in European commercial property hit the highest level since the credit crunch, with activity up 21% year on year to £128bn.

Most transactions were in the UK and Germany, but CBRE's data showed the fastest levels of growth in peripheral economies such as Spain, Portugal and Ireland, where property markets have been severely depressed in recent years.

UK Commercial Property Performance

2013 was a good year for commercial property as the recovery in capital values gathered pace in Q3 to finish the year very strongly.

Improving real estate returns came second to those for equities in 2013, which returned 18.5%, but outpaced bonds, at -5.2% for the year (MSCI UK/ JP Morgan 7-10 yr).

UK commercial property delivered a total return of 10.3% in 2013 according to the IPD Yearly Index. This was higher than the 2.88% recorded in 2012 and represented the strongest annual performance since 2010.

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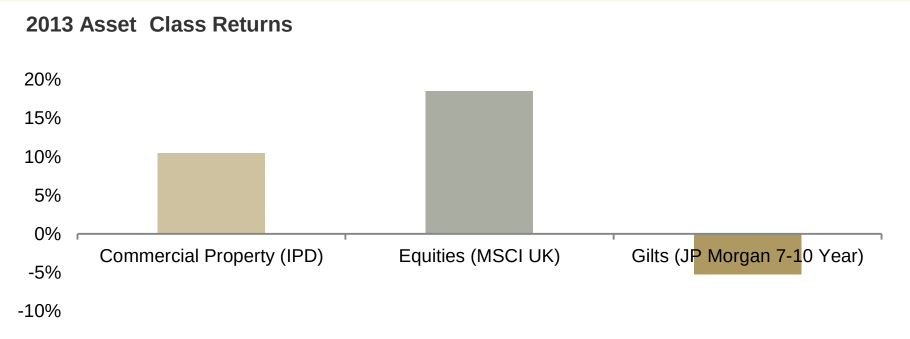
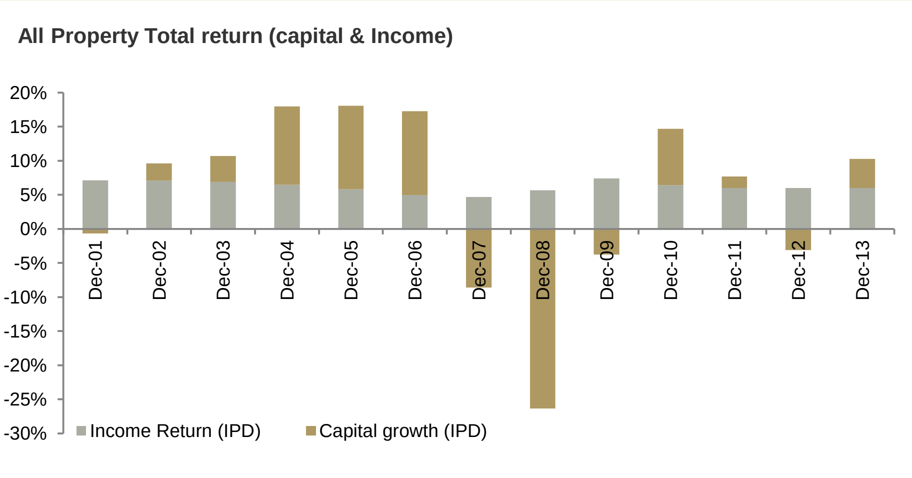


Source: IPD Quarterly Digest 2013

At the start of 2013 (January) only three regional UK markets (out of a total of 30) measured recorded rising property values.

By December, only one market outside of London had recorded falling property values.

Performance was driven by a combination of income return at 6% and capital growth at 4.3%.



Source: IPD Quarterly Digest 2013

As in 2012, the office sector recorded the strongest returns over 2013 generating annual total returns of 13.2% (7.82% of which was capital growth).

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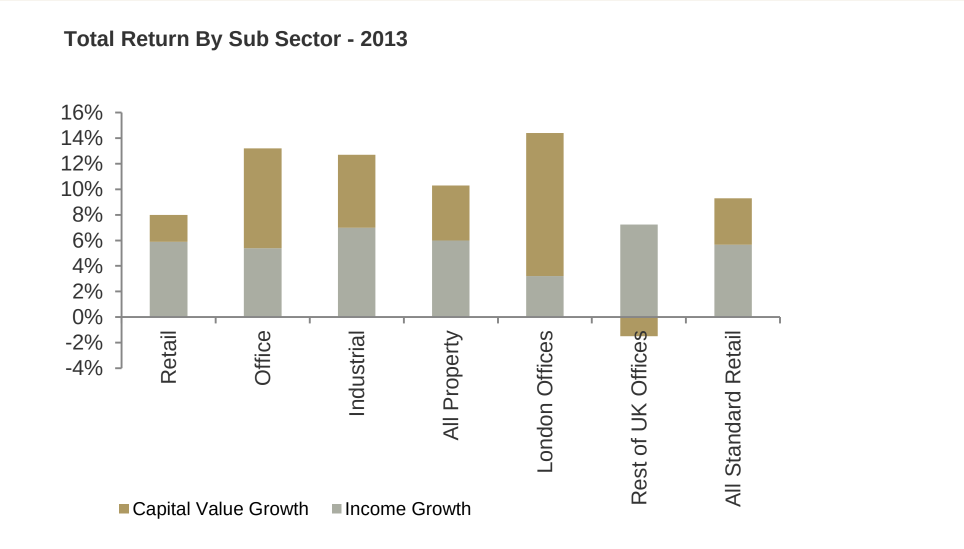

Source: IPD Quarterly Digest 2013

Central London offices out-performed with a total return of 14.4%, supported by a high volume of transactions (particularly in the final quarter of 2013).

Industrials also ended the year strongly (total return 1.9%-Q4), finishing 2013 up 12.7% (5.7% of which was capital growth).

Despite evidence that the British high street continues to struggle, the Retail sector still finished 2013 with very respectable returns of over 8% (2.1% of which was capital growth).

Capital Inflows

According to Property Archive, transaction values for 2013 were over £40bn an increase of more than 40% on 2012.

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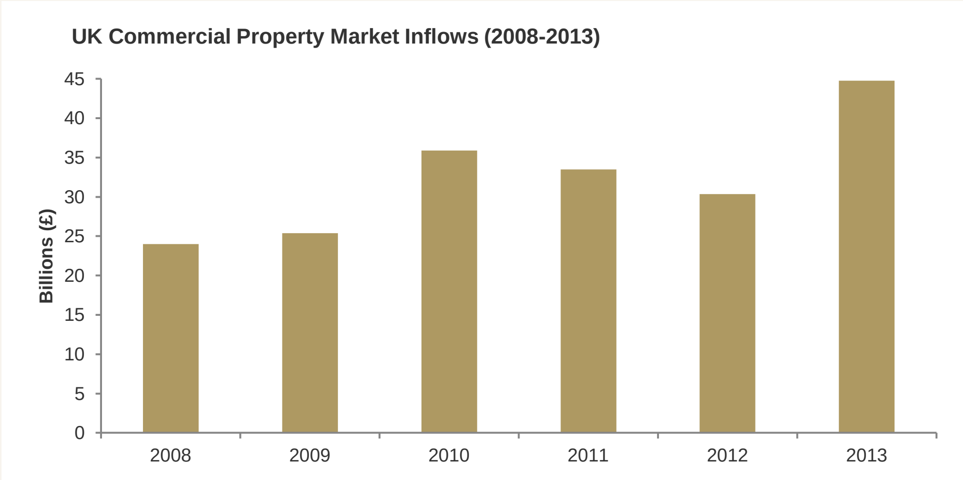

Source: IPD Quarterly Digest 2013

London continued to lead the revival as commercial real estate investment into the city reached a six year high of £19.9bn in 2013, according to figures released by Cushman & Wakefield. The majority of investment came from overseas.

Non UK buyers, predominantly Asian investors, accounted for 72%of fourth-quarter transactions in the City of London and Docklands area and 75% in the West End market.

There was a significant inflow into the UK market from Chinese investors, due partly to China’s financial regulator relaxing overseas investment regulations last May, allowing the country’s insurance companies to buy foreign real estate. The regulator also doubled the proportion of capital that Chinese insurers can place into real estate assets, from 10% to 20%.

A similar change to insurance regulation is occurring in Taiwan, which is likely to see a gradual increase in international property investment by insurers over the next two years.

Major deals included the £1bn Royal Albert Dock development, the One Nine Elms scheme; and a £500m plan to rebuild the Crystal Palace in London.

The £650m Manchester Airport City deal and the purchase of a tower block in Birmingham by a Chinese private equity firm further indicates that they are happy to move further up the risk curve and look outside of London for opportunities.

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Offices

London regained its status as the world's most expensive office market, overtaking Hong Kong. Prime West End office space now costs, on average, £100 per square foot. Prices are being driven by Hedge funds (financial boutiques) and oil & gas companies, buoyed by the economic recovery.

The key factor behind rising prices in most markets was a lack of high-quality office space in the best locations.

The picture outside of London is starting to look more positive as we are seeing improvements in occupational markets away from the capital. 2013 is likely to see the highest levels of take up in five years.

Business and consumer confidence continues to improve and business investment is now expanding as corporations are more confident about future profitability, a crucial requirement for sustained expansion.

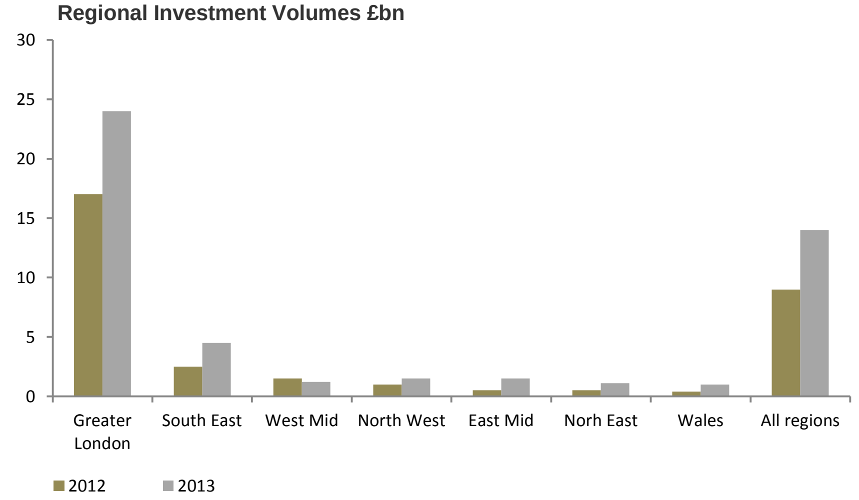
The improved outlook for the occupier markets and a growing shortage of quality office space means that rental growth is now a genuine prospect for a number of markets in the UK.

Regions

Whilst there was a significant increase in investment into London, +38.5%, the percentage increase in investment into regional markets, +60.8%, was far higher. Much of this increase was seen over the second half of 2013 and for the large part, was driven by UK institutions who generated 39% of all deals, according to property advisory group, CBRE.

According to Deloittes, "institutional funds, which had largely retrenched into core south east and London markets until mid-2013, are now bidding on, and winning higher-risk assets across the UK, as greater optimism amongst wealth managers translates into an increasing allocation of capital to real estate."

The increase in investment levels was seen across the majority of UK regions, with the biggest rises recorded in Wales, East Midlands and North East (investment more than doubled in each region).



Source: Lambert Smith Hampton: Transactions Bulletin Q4 2013

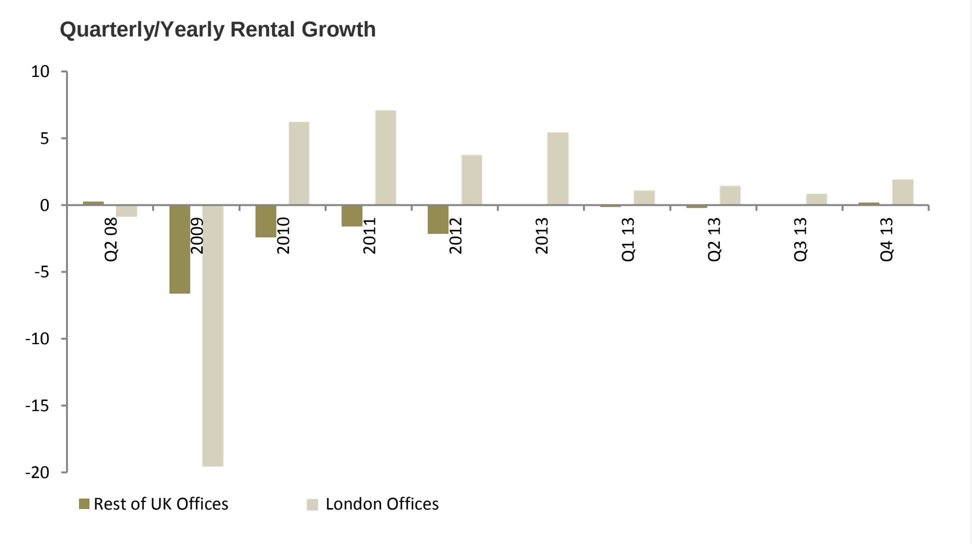
Overseas buyers, who for the moment remain focused on London, were the second largest investors. A third of these were from Asia.

In a positive sign for the regions, Chinese investor interest has started to find its way outside of London; major deals included Gingko Tree's (China's State Administration of Foreign Exchange) joint purchase of One Angel Square in Manchester and Beijing Construction Engineering Group's joint (£650m) investment.

2013 should see the highest take-up across the regional markets for over 5 years and 2014 is likely to see momentum maintained. The pick-up in occupier demand across key regional office markets was perceptible over the second half of 2013. As the economy continues to improve, businesses will have a greater confidence in implementing decisions that were previously on the back-burner, with regards to their future expansion (space) requirements and thus pushing leasing volumes higher. This increased confidence in the occupier markets provides a compelling case for value growth.

Demand is strengthening for well-located assets outside the capital, and due to a lack of grade A office supply (resulting from a lack of new developments since 2008) we would expect rental increases over the coming year.

Our view is reinforced by IPD data, which shows rental growth of 0.5% across all sectors during the fourth quarter, and 0.2% for assets outside London - their first quarterly increase since September 2008.



Source: IPD Quarterly Digest 2013

Retail

The retail sector will continue to face the headwinds of the switch to online shopping. IPD data shows that retail rents continued to fall with rental growth down 0.4% over 2013.

Structural challenges remain and going forward the sector will continue to be characterised by increasing polarisation. Certain big shopping centres (i.e. Westfield) and city centres (London) continue to attract shoppers and trade well, whilst many local high streets are in long-term decline.

London continues to benefit from its position as the one of the premier global shopping destinations.

Unprecedented demand has pushed prime rents on Bond Street to £1,300 per sq ft, an increase of 80% on 2007, according to Jones Lang Lasalle.

Strong fundamentals, constrained supply and a wall of international capital chasing UK retail will help maintain the momentum into 2014.

Limited opportunities in London will force capital out into the top tier secondary market as investors look to achieve higher returns.

Logistics

The demand for logistics and industrial units was high in 2013, driven by UK institutions (looking to match assets with liabilities). Properties are typically let on longer-term leases and with index-linked rentals. The secure and predictable income makes them highly desirable.

Growth in this sector is being driven by online retailers, in particular food retailers, opening more dedicated warehouse facilities. As online retail grows further, the drive to deliver orders to customers more quickly will become an increasing competitive advantage.

The demand for distribution units is set to grow as retailers look to improve their ability to deliver the final product to the consumer. Investors are actively looking at assets in London along with the core logistics markets of the Midlands.

Industrial units around the UK saw a strong surge in performance towards the end of the year, with values rising by 3.9% and rents by 0.6%, leading to a total return of 5.6%.

Riverside Capital Outlook
A widespread recovery for 2014

For the first time since the onset of the financial crisis we have entered the New Year without the overhang of a major macro-economic threat.

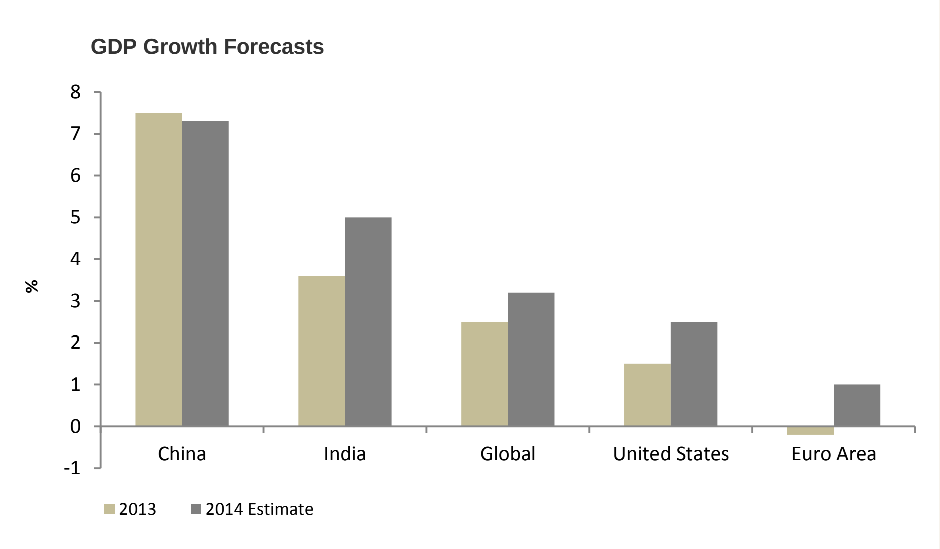
The Global/UK recovery doesn't appear to be a "flash in the pan" and 2014 starts with the prospect of a modest acceleration in global GDP, low inflation and a continuation of low interest rate policy.

Major central banks in the developed world are expected to keep interest rates at historically low levels over 2014 and whilst the US Federal Reserve (Fed) has started tapering, a rate rise is not expected until 2015 at the earliest. The Bank of England has further indicated that there was no need for an imminent rate rise, despite previous forward guidance linking to unemployment rates.

With inflation projected to be below target two to three years ahead, we envisage that rates will remain on hold until at least the next general election.

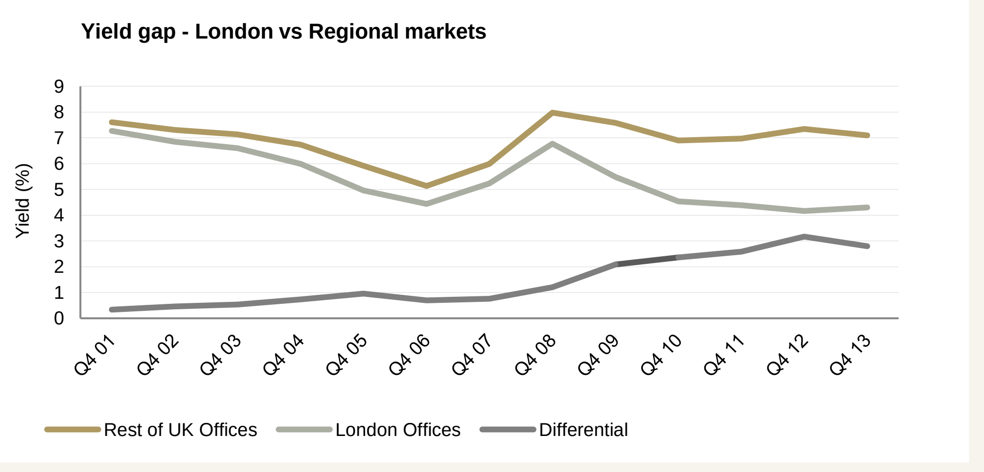
After three years of decelerating output the global economy is expected to strengthen in 2014, as the headwinds which held back activity last year are expected to abate somewhat and allow demand to lift growth rates.

Global growth is forecasted to reach 2.9% (IMF – Oct 2013), the best performance since 2011.



Source: IPD Quarterly Digest 2013

The spread between Prime and secondary property remains at historically high levels (2.8% according to IPD).



Source: IPD Quarterly Digest 2013

This margin should narrow (but will still remain significant) as we see a continued improvement in economic conditions.

Regional markets are expected to attract a higher level of interest as more investors start to look at offices outside London, logistics, and prime property in the UK's key regional locations.

A key driver of this capital will be Institutional UK funds. Having taken a back seat in the early part of 2013, these funds have started to re-deploy capital across the UK. In the search for value they have had no qualms about moving outside of London or further up the risk curve.

The sheer weight of money will likely lead to a marked yield compression for the highest quality secondary assets due to the lack of available stock, and this could result in regional markets outperforming London over the first half of the year.

The outlook, however, is not bright for all property. Yields will continue to increase for weaker assets (tertiary or poor secondary property) that are likely to prove functionally obsolete in both economic and environmental terms.

Permitted development rights introduced in May 2013, allowing change of use from offices to dwelling houses, will help transform the prospects of some secondary office markets.

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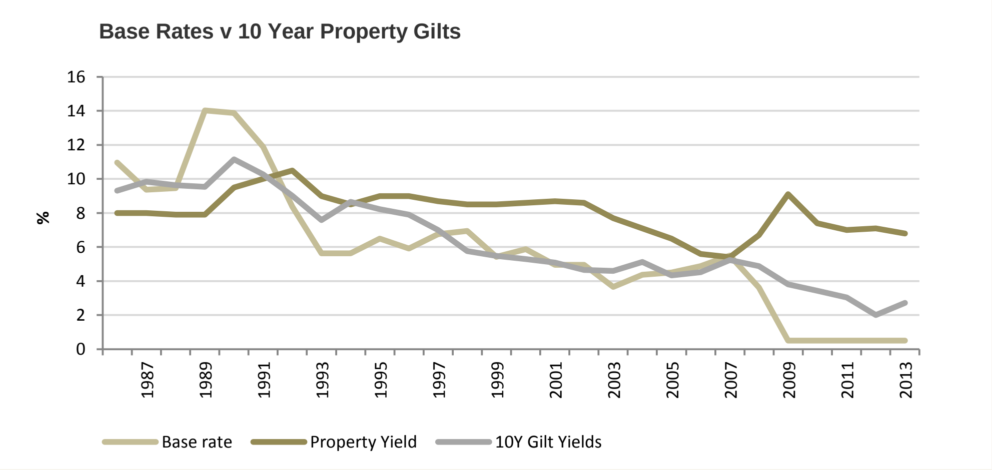
UK commercial property continues to offer an attractive income return relative to most financial assets and with capital growth now materialising (given stronger interest from foreign buyers and multi-asset investors) there is every chance that allocations to the asset class will increase.

Historically, returns have been driven by the income component; we expect this to remain the case going forward.

Government bonds remain historically expensive, despite having weakened for the first time in three decades as long-term interest rates climbed.



Source: IPD Quarterly Digest 2013

The level of transactions in 2013 exceeded the total for 2012. This investment momentum is likely to continue into 2014, driven by the weight of international capital chasing UK retail alongside an increased appetite for the top-tier secondary market.

A strengthening economic recovery will lead to a marked improvement in occupier market demand. Businesses will have a greater confidence in implementing decisions that were previously on the back-burner, with regards to their future expansion (space) requirements and thus pushing leasing volumes higher and lead to renewed rental growth.

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Office and industrial sectors are at the forefront of rental growth, with rents rising across most of the UK.

Overall rents in the retail have struggled to grow due to the structural changes and high vacancy rates occurring within the sector. However, the next 12-18 months should see this change, as retail adapts to the new challenges. Outside of London we expect to see modest growth in rents, particularly in secondary markets.

London will continue to offer opportunities as it continues to expand. Greater levels of investment from overseas and businesses such as Google requiring vast amounts of space has seen a number of new districts developed, including Battersea, Nine Elms and Kings Cross.

Expansion will continue into the foreseeable future driven by occupiers looking to move away from the historical business areas and overseas capital looking for development opportunities.

Historically, logistics has been seen as an unglamorous sector within property, more suited to the institutional investor or those seeking a secure income stream. However this is set to change and the next few years could see strong levels of capital and rental growth along with asset management opportunities.

There has been a significant improvement in the debt market over the last 12 months, with an increasing number of new entrants (particularly from non-traditional sources such as private equity and debt funds).

A strengthening economy and further easing in the availability of debt will provide a further boost to secondary stock and regional UK markets.

There is a strong chance that we will see double digit returns for Central London Offices and retail in 2014. Capital growth will be driven by yield compression and the expected improved rental growth will be converted into higher net incomes.

There remains a clear imbalance between an excess of buyers coupled with a modest level of sellers and this imbalance is expected to persist and push prices even higher and yields even lower in the short term.

There is no doubt that the outlook over the next 12 months looks more positive than at any point over the last five years, however it is important not to let complacency set in as a number of hazards remain.

Competition for prime property is as high as we have ever seen and the sheer weight of money has the ability to push prices beyond what can be justified based on fundamental drivers. As a company we remain acutely aware of this fact and look beyond the “noise” in order to provide investors a real return that is sustainable over the life cycle of their investment.

For further information please contact:

Sarah White
Head of Marketing
Tel: +44 (0)20 7297 4480
Email: sw@rivercap.co.uk

Jaspal Phull
Head of Research
Tel: +44 (0)20 7297 4480
Email: jp@rivercap.co.uk

www.rivercap.co.uk