UK Property Market Snapshot

The Regions: April, 2015

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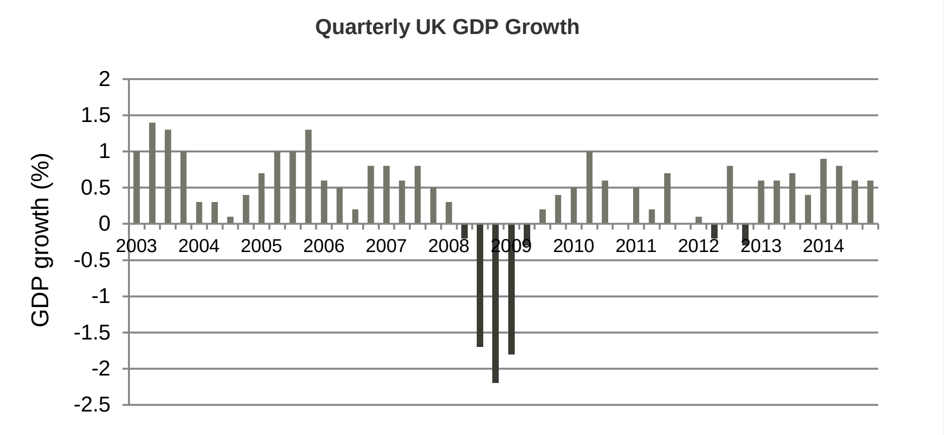
The Economy

The UK economy continued to gather strength last month as official figures from the Office of National Statistics (ONS) showed that the UK economy grew by 2.8% in 2014: the highest rate of growth since 2006. Purchasing Manager Indices (PMI) also indicate that the economy grew by 0.7% in the first quarter, reflecting a revival from the slowdown seen late last year. Faster growth of new business and improved general sentiment for the year ahead also bode well for the upturn to retain strong momentum as we move through the year.



Source: Office for National Statistics

Whilst the recovery remains on track, it should not be taken for granted; further data released by the ONS showed that the UK trade deficit widened in February by more than expected, with the deficit in goods and services broadening to £2.86bn from £1.54bn in January.

The UK's inflation rate remained at a record low of 0% in March, according to the ONS. Cheaper clothing and footwear, offset by a rise in petrol prices, helped to maintain the rate at 0% for a second month.

The figure was the lowest rate of Consumer Price Index (CPI) inflation since estimates of the measure began in the late 1980s and has put on hold any expectations of a rise this year.

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At the last Bank of England meeting, UK interest rates were kept at 0.5% for a further month. It has now been over six years since rates were slashed to a record low and will be the first time in over half a century that a government has faced unchanged borrowing costs for its entire term.

With a rate rise now unlikely to happen in 2015, the flow of capital into higher yielding UK real estate looks set to continue, which could be further fuelled by the continued availability of cheap finance.

UK Election 2015

The 2015 general election is looming large on the horizon, with votes taking place on the 7th May. This year we go to the polling stations under a greater cloud of uncertainty; not only is it the first time since 1974 that we've gone to vote under a coalition government but it is highly likely that once again, we will not exit with an outright majority.

There is a degree of caution among buyers ahead of the UK general election and concerns have been raised as to how this will affect the UK property market. However we maintain a positive medium-term view that the UK property market will remain fundamentaly attractive to investors.

The biggest cause for uncertainty which is explicitly linked to the result of the election is a decision on whether the UK will hold a referendum on EU membership. An exit could have a negative impact on occupier and investment markets.

Regional property

- The global commercial property market has continued its momentum over the 1st quarter in 2015, according to data from property archive. Despite the overall amount invested - $17.424bn - being down on the figure for Q4 2014 (£19.53bn), this figure is considerably higher (23%) than the same period (Q1) in 2014.

- 2014 was a great year for the regions as investment outside of London rose more than 35% to £35bn, driving UK commercial property to a record high of £61bn.

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- With the supply of high quality assets in London on the decline, investors have increasingly looked to deploy capital in the regions. The six biggest cities outside of the capital (Manchester, Edinburgh, Birmingham, Leeds, Glasgow and Bristol) were the beneficiaries of these inflows, causing investment yields to compress.

Prime Yeilds	Offices	Industrial	Retail
Bristol	5.75%	5.75%	5.75%
Manchester	5%	5.75%	5%
Leeds	5.50%	6.25%	5%
Birmingham	5.25%	5.75%	5.50%
Glasgow	5.75%	6.75%	4.75%
Edinburgh	5.50%	6.75%	4.75%

- Historically, UK investors and particularly UK institutions have been the main players in the regions and have had their pick of opportunities. Last year however, they started to see more competition from overseas investors as they move further up the risk curve.

- With a wall of money hitting the UK and a historic lack of development during the economic downturn, we are now seeing the same problem of a diminishing supply of Grade A space across the regional office sector.

- Birmingham currently has just over one year's supply of Grade A space available, whilst Sheffield, Leeds and Glasgow have just over three years of Grade A supply.

- The recovery across the key regional markets has continued. 2014 take-up reached its highest level on record and was 27% above the 10-year annual average, according to data by Knight Frank.

- This year, GDP growth is forecast to once again grow at 2.6%, second only to the US. With the economic recovery now spreading to the regions, occupier confidence is also improving. As occupier appetite for new office space continues to rise we foresee a significant positive impact on rents going forward.

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Summary

- Whilst there is a degree of uncertainty surrounding the election, all of the competing parties have pledged that the devolution agenda will continue. Over time, this will be beneficial to the regions as this will promote economic growth and help UK cities to create their own identities away from London.

- 2014 was an exceptional year for regional investment and we expect investor demand to remain strong for the remainder of 2015, as a substantial weight of money continues to target core regional markets. Given the diminishing supply of Grade A stock available to purchase, this should lead to more activity in the secondary market and trigger further speculative development.

- Returns for the London market are expected to somewhat normalise. 2015 could therefore be the year that regional markets outperform.

Key deals in March

Address	Sector	Area (sqft)	Price (£m)	Yield (%)	Vendor	Purchaser
Portfolio	Retail	1,390,000	£477	5.2	Tesco	British Land Plc
3M Centre, Bracknell	Office	165,000	£70	7.5	M&G Real Estate	Indian investor
Tanfield, Edinburgh	Office	190,972	££54	6.8	Caryle Group	Rockspring
Salford Quays	Office	164,687	£251	n/a	Peel Holdings	L&G

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