London Property Market Snapshot

March, 2015

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THE PROPERTY INVESTMENT PEOPLE

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Broad Economic Factors

The Budget, 2015

- George Osborne declared that Britain could finally “walk tall again” after years of austerity in his fifth and final budget before the general election in May.

- In a move to attract the votes of first-time buyers, the government announced a new “Help to Buy Isa” in order to help buyers get onto the first rung of the property ladder. The ISA will see the Government add £50 to every £200 first-time buyers put away towards a deposit. The state will pay out a maximum of £3,000 on savings of £12,000, but the bonus will only be paid out on the purchase of a property costing less than £250,000 outside London, or less than £450,000 in the capital.

- There were specific policies put in place for the capital with a focus on boosting growth. A £7 million injection of public money is expected for the Croydon Growth Zone and funding worth £1 million for the New London Land Commission.

- The Mayor’s Office was expected to be given more planning powers over skylines, devolved powers on skills, and help with improving digital connectivity for businesses. Details were also expected on £10 billion for new transport infrastructure improvements set out in the long-term economic plan for London.

- The Budget also contained measures aimed at increasing the number of new properties built each year. Mr Osborne promised more funding for the London Land Commission to address housing shortages in the capital and announced the creation of 20 housing zones, within which planning rules are relaxed and deals are brokered with developers to speed up house building.

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The London Market

- Investment in central London's commercial property market reached £20.5 billion in 2014, marginally below the last investment peak in 2007 when £20.6 billion was exchanged.

- The huge weight of money flowing into the London real estate investment market from the UK and abroad looks set to continue in 2015, with the level of demand far outstripping the available supply, according to the data from Cushman & Wakefield.

- Overseas investors remain the most active in terms of transactional investment volumes, accounting for 78% of both the fourth quarter and annual total. Asian investors dominated fourth quarter investment volumes but over the year North American investors have spent the most money in London.

- With Government bond yields continuing to move downwards, property has become *more* favourably priced against gilts since the beginning of the year. The yield gap remains well above the historic average.

- Market yields have continued to be forced down for all investments, with all office yields at 4.63%. This figure is, primarily, driven by prime (London) yields, which are now back at 2007 levels.

- Demand for "trophy" assets remains high with a number of transactions having completed below 4%, notably the Gherkin which sold at a yield of 3.8%.

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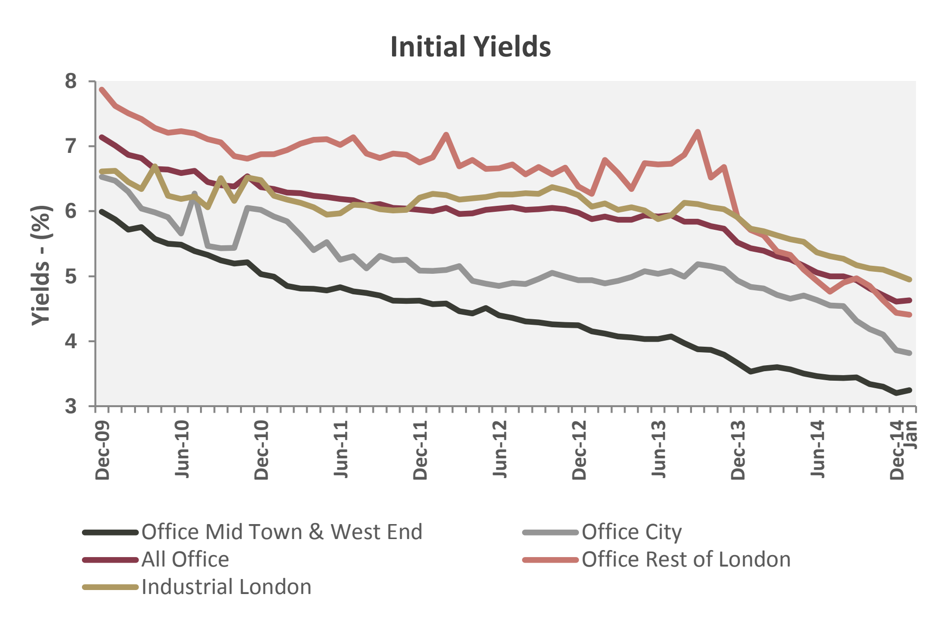

- There is genuine confidence in the strength of the occupational market, with demand strong and an impending shortage of space we expect to see rents steadily rising.

- Headline rents have broken through the £120 psf mark in the West End, £65 in Mid Town and City rents are also trading at around £67. However there is plenty of evidence to suggest that a number of deals are transacting at considerably higher rates.

- According to Property Week, SG Hambros Bank are set to pay close to £150 psf for offices in St Jame's Square. This would break the record of £140 psf set in 2007.

- The severe lack of space in the industrial sector has meant that rental growth within London is now 4.5% pa, significantly higher than the country wide average of 2.9%.

Key Year on Year Indicators	
Take UP	↑
Supply/Availability	↓
Vacancy Rate	↓
Rents	↑

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Feb-15	Prime Yields (%)	Prime Rents £psf
City Core	4.25	£67.50
Mid Town	4.25	£65
West End	3.25	£122

Summary

Austerity measures implemented by the ruling Coalition coupled with a strong but steady domestic recovery has seen the UK deficit fall significantly over the course of this government. Overall forecasts continue to predict that the UK will be amongst the faster growing major economies.

Consensus forecasts for inflation have been sharply reduced and “negative inflation” is a possibility in the near term. Whilst deflation is generally not the best scenario, what we are experiencing could be seen as “good deflation” and could effectively put money into the pockets of consumers.

Falling inflation does benefit property in one way if it keeps interest rates “lower for longer” which seems to be the indication from the BOE and could lead to further yield compression going forward.

Interest in UK and specifically London commercial property remains high, supported by the positive trend of rental growth, widening yield gap and strong inflows of capital.

Turn the page for key property deals in London during February, 2015

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Key Deals in February 2015

Address	Sector	Price (£m)	Yield	Vendor	Purchaser
Portfolio	Student Accom	£535	5%	Carlyle/Generation Estates	LetterOne
Christchurch Court, EC4	Office	£270	-	Deka	Shimao Property
Kings Cross (20% Stake)	Mixed	£200	-	L&C Railways, BT PF, DHL & Argent.	Australian Superannuation
Surrey Quays	Leisure	£135	-		
21 Lombard St, EC3	Offices	£125	4.91%	Hyundai Fire & Marine (Korean)	Private Middle Eastern
1 Mabledon Place, WC1	Office	£73	4.47%	Stanhope	Middle Easter
42-60 Kensington High Street, W8	Office	£50	3.60%	Lum Chang	Grosvenor FM

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