Riverside CAPITAL

THE PROPERTY INVESTMENT PEOPLE

JULY 2015

Research paper
London property market snapshot

UK economy

Economic Indicators	May '15	Apr '15
FTSE 100	6984	6946
UK 10 Yr Gilts (%)	1.84	1.58
3M Libor (%)	0.57	0.57
UK GDP (%)	0.3	0.3
UK CPI (%)	-0.1	0.1
UK PMI	55.9	54.2

There was a major surprise in store for the UK electorate as the Conservative party celebrated a stunning victory in Britain's general election.

Every pre-election poll had pointed towards a dead heat between the Tories and Labour and thus a hung parliament. However, predictions of a of a close contest with Labour proved to be wrong, as Cameron won 331 out of 650 parliamentary seats, achieving an overall majority (albeit a small one).

The market reaction was immediate; the pound rallied and stocks rose as investors welcomed a clear result and a government seen as more "business-friendly" than the Labour alternative. With political uncertainty removed, shares in property plcs saw the most significant rise.

The election victory is an endorsement of the Conservatives' austerity programme and is likely to see a continuation of cuts to public spending as they seek to reduce a budget deficit of nearly £90 billion.

Despite the positive implications of a Conservative victory however, Britain now faces uncertainty going forward with the prospect of an in-out referendum of Britain's EU membership having gone from a risk to a reality.

Open Europe - a thinktank - estimated that a Brexit (a British exit of the European Union) could cost the UK economy £56 billion a year, whilst Germany's finance minister, Wolfgang Schauble, has warned that Brexit would be a "catastrophe."

UK CPI inflation rate turned positive again as May's UK consumer prices figures confirmed that deflation lasted for just one month. The rise in CPI inflation from 0.1% in April to +0.1% in May mainly reflected a slower pace of food price falls and the recent rebound in petrol prices.

House prices hit record highs as the Conservative election victory triggered a rush to buy. Agents reported that the election surprise gave a boost to market sentiment, driven by more certainty about future economic and taxation policies.

The biggest surge in demand was seen at the top end of the market, where properties that would have been hit by Labour's mansion tax flooded the market following the election.

The average asking price increased by 3pc between May and June as buyers and sellers reacted to the vote. The monthly rise was the highest since February 2014, and on an annual basis, prices are up by 4.5pc.

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The london market

- There were no signs of an election slowdown as investor appetite continued to strengthen in May.
- Overall transactions amounted to £4.8bn (of which £1.88bn was invested in Central London). This was over £700m higher than the previous month's total and has pushed the value of deals completed over the pevious 12 months to over £73bn: a new record high.
- Overseas investors continue to pour money into London, accounting for nearly 80% of all Q2 purchases.
- Central London offices continued to account for the lion's share of UK commercial property activity in May. There was evidence, however, that interest continues to widen beyond the London borders, as the overall (London) share of all UK office trading fell from 82% to 74%.
- Availabity of stock remains the key driver of both occupier and investment markets. Occupiers are now having to look further afield to find appropriate office space, pushing up prices across the capital.
- Vacancy rates in the city fell to 5.9% down from 6.2% in April, representing the lowest level of vacancy since 2000.
- Demand in the West End is also set to pick up as social media giant, Twitter and online fashion retailer, ASOS have both announced requirements totalling more than 350,000 sq ft, despite both firms only acquiring new space in the last couple of years.
- The rapid expansion of the digital/technology economy will continue to drive a changing landscape across London. According to Cushman Wakefild, media and tech firms accounted for 28% of leasing activity in central London, above banking and finance's 22%.
- There are indications that property developers have started to respond to the lack of supply and increased occupier demand on the back of strong economic growth in the UK. According to a survey of construction activity by Deloitte, the amount of office space being built in central areas of the capital rose 24 per cent in the six months to the end of March, the second-biggest increase in 20 years.
- The latest De Monfort lending survey shows that new loans secured against commercial property and new office starts in Central London are both growing strongly.

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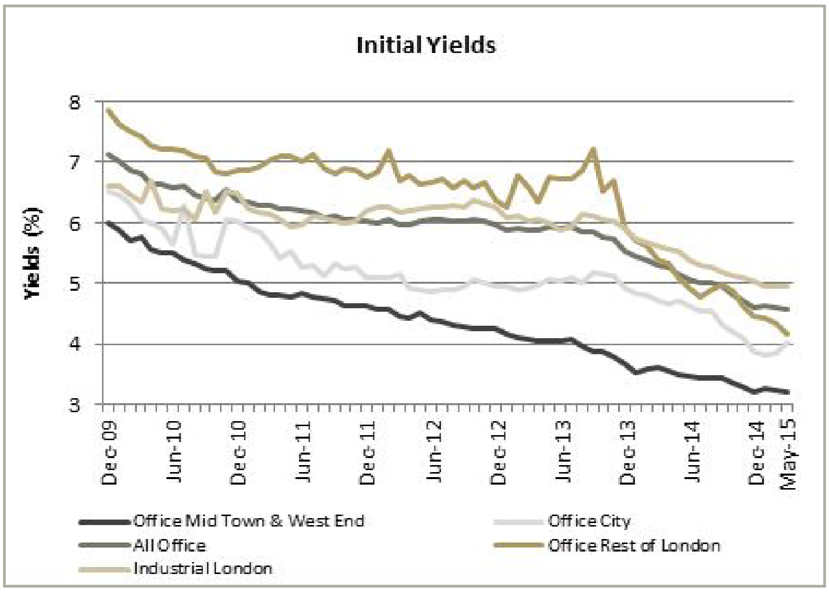
The london market continued



- Government bond yields have been volatile over the 2nd quarter, with the markets worrying less about deflation and more about when interest rates may start to rise. However, property is still more favourably priced against gilts than it was at the beginning of the year. The yield gap between property and the risk free rate remains attractive for investors and still well above the historic average.
- 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.
- Whilst rental growth has broadened to the regions, the strongest rental growth is still in the capital.

May-15	Prime Yields (%)	Prime Rents £psf
City Core	4.25	£67.50
Mid Town	4.25	£65
West End	3.00	£122

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Summary

There were no signs of an election slowdown as interest in London commercial property remained high supported by rising occupational demand, the positive trend of rental growth, a significant yield gap and strong inflows of capital.

The economic outlook going forward remains favourable given the strong levels of employment, the continued prospect of low inflation and therefore low interest rates and high levels of inward investment. Altogether, this bodes well for the property sector.

The one fundamental concern over the next 12 months revolves around the potential of a EU referendum; a drawn-out process would cast a shadow over the UKs economy. The best that we can hope is that the referendum is brought forward to 2016, as David Cameron has suggested.

Finally, London retained its postion as the world's most popular tourist destination, welcoming over 17 million international visitors in 2014. Allied with a booming property market, this continues to highlight the "excitement" surrounding the capital.

Key deals in May 2015

Address	Sector	Price (£m)	Yield	Vendor	Purchaser
Walbrook Building, EC4	Mixed	585	3.94%	Minerva	Cathay Life
Watermark Place, EC4 (50%)	Office	258	4.25%	Oxford Properties	Union Investments
St James Market (50%)	Mixed	145	n/a	Queens Estate	Oxford Properties
64-76 New Oxford Street	Mixed	36.5	4.1%	Jaro Real estate	St James Place

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