



UK PROPERTY INVESTMENT Q3 2015

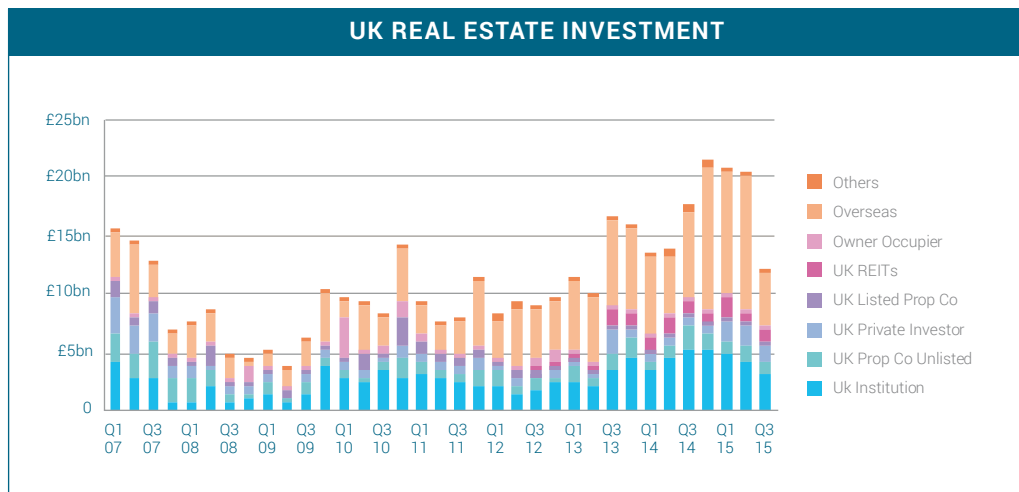
November 2015



- After three consecutive quarters with UK investment in excess of £20bn per quarter, Q3 2015 has shown reduced investment activity of £12.1bn. This is the first time since Q2 2013 that total UK investment activity has been this low.
- UK institutions saw net disinvestment for the first time since Q2 2013.
- UK institutions were the largest sellers at £4.4bn, displacing overseas investors for the first time since Q4 2012.
- For ten consecutive quarters, UK unlisted property companies have seen net disinvestment.
- Overseas investors continued to see net investment since Q1 2009.
- The Far East reclaimed its position as the largest overseas investor, displacing the US.
- Overall initial yield continued to fall to 6.55% (compression of 21bps).
- For the first three quarters of 2015, Middle East investors were net disinvestors, reflecting the impact of cheaper oil on their economies.

Q3 2015

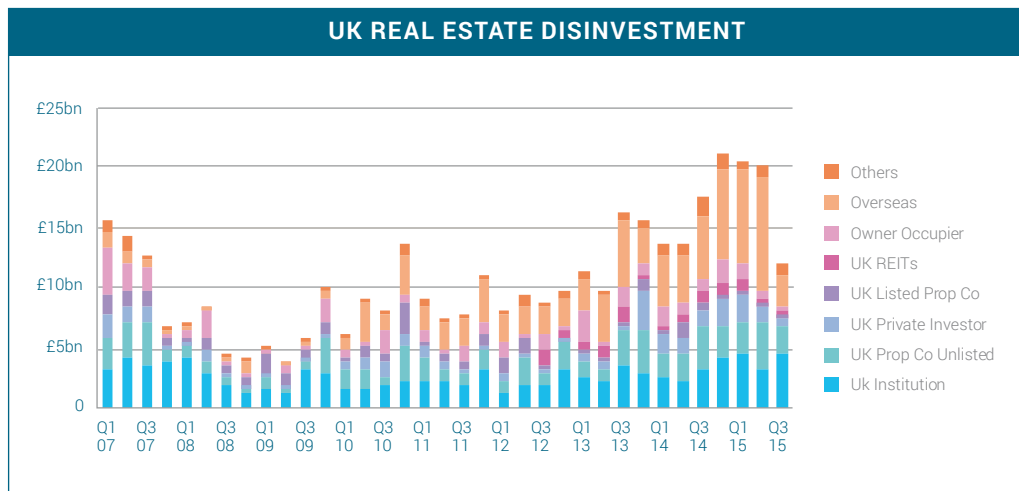
- Q3 2015 total investment volume was £12.1bn seeing a decrease of 41% from the previous quarter. From the same time last year (Q3 2014) it was a decrease of 34%.
- For Q3 2015, overseas investors continued to have a dominant purchasing position at 38% (£4.5bn) of all UK investment activity, followed by the UK institutions at 27% (£3.2bn). These two groups have been the largest investors since Q3 2009 as shown in the graph below.



SOURCE: PROPERTY ARCHIVE

- Both UK private investors and UK REITs had purchases over £1bn each at £1.6bn and £1.2bn respectively.
- The largest sellers for Q3 2015 were UK institutions at £4.4bn (36%), displacing overseas investors for the first time since Q4 2012 as shown in the graph below. Overseas investors followed at £2.8bn (23%) with UK unlisted property companies following at £2.4bn (20%). This group has been consistent sellers in excess of £2bn quarterly since Q3 2013.

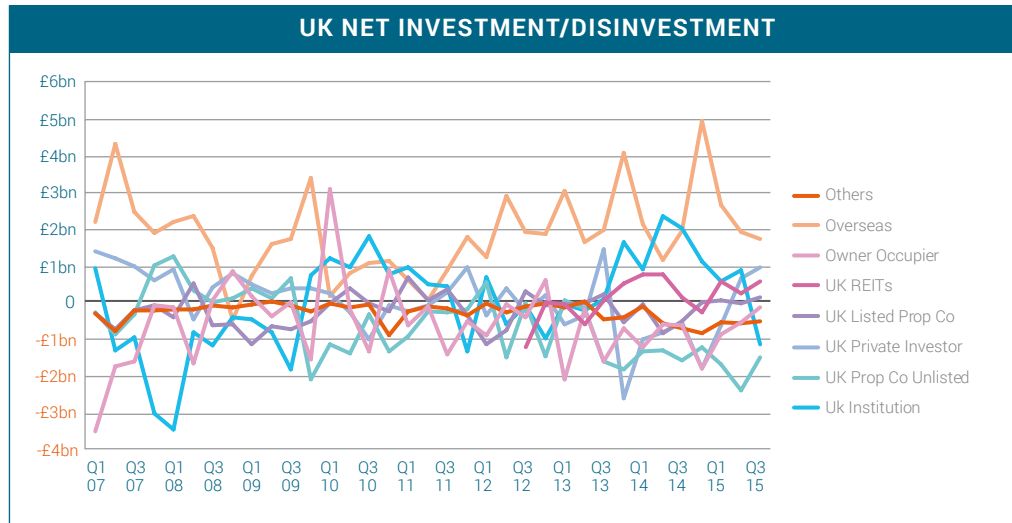
The Far East reclaimed its largest overseas investor position in Q3 2015 at **42%**



SOURCE: PROPERTY ARCHIVE

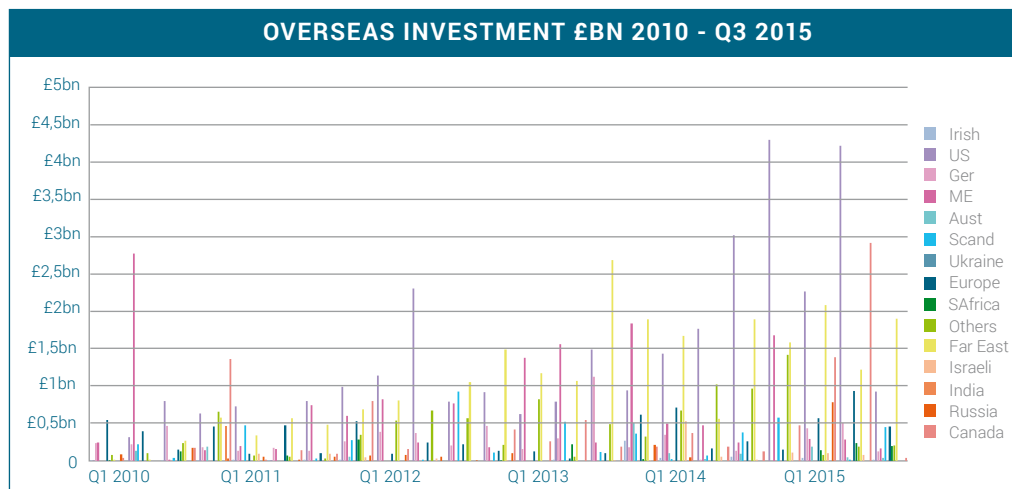
- Overseas remained the largest net investors at £1.7bn, making it the 26th consecutive quarter since Q4 2008 as seen in the graph below.
- UK private investors followed at £0.9bn with UK REITs at £0.6bn.

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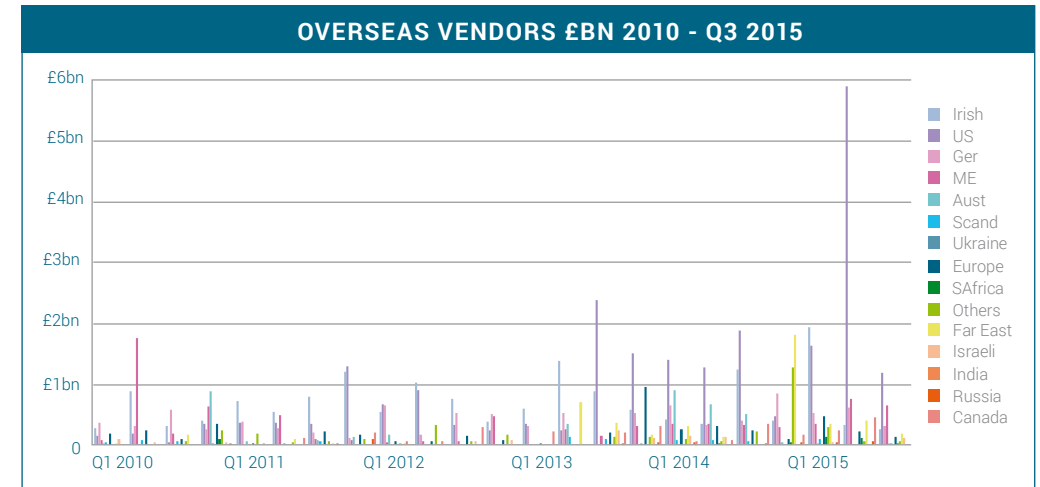
SOURCE: PROPERTY ARCHIVE

- UK unlisted property companies continued to be the largest net disinvestor at minus £1.5bn closely followed by UK institutions at minus £1.2bn. This is the first time UK institutions have seen net disinvestment since Q2 2013.
- For UK institutions most sectors saw net disinvestment except for industrial, mixed use and residential.
- UK unlisted property companies saw net disinvestment also across most sectors except for mainly retail warehousing.
- The Far East reclaimed its largest overseas investor position in Q3 2015 at 42% (£1.9bn) displacing the US which followed at 20% (£0.9bn) as shown in the graph below.



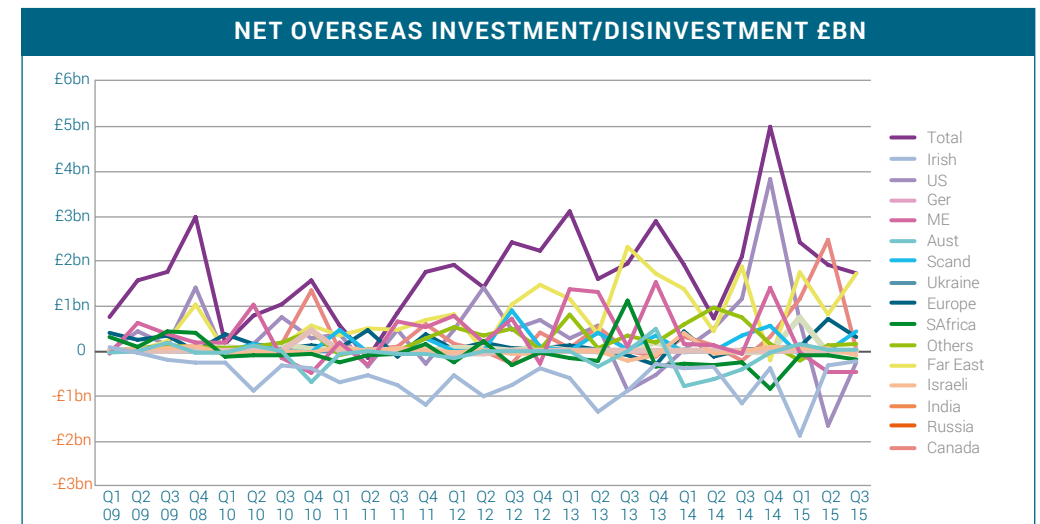
SOURCE: PROPERTY ARCHIVE

- The biggest overseas seller continued to be the US at 42% (£1.2bn), followed by the Middle East at 23% (£0.6bn) as illustrated in the graph below.



SOURCE: PROPERTY ARCHIVE

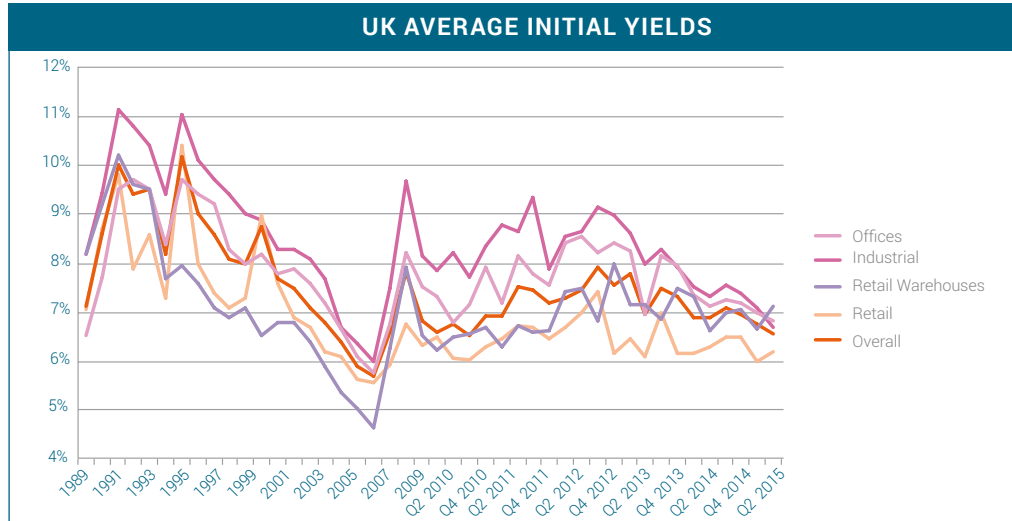
- The largest net overseas investor in Q3 2015 was the Far East at £1.7bn followed by the Scandinavians at £0.4bn as shown in the graph below.
- The Middle East were the biggest net disinvestor at minus £0.5bn, beating the US and the Irish at minus £0.2bn each.
- Total Irish net disinvestment has been minus £15.7bn since Q2 2009 making it 26 quarters of continuous net disinvestment.



SOURCE: PROPERTY ARCHIVE

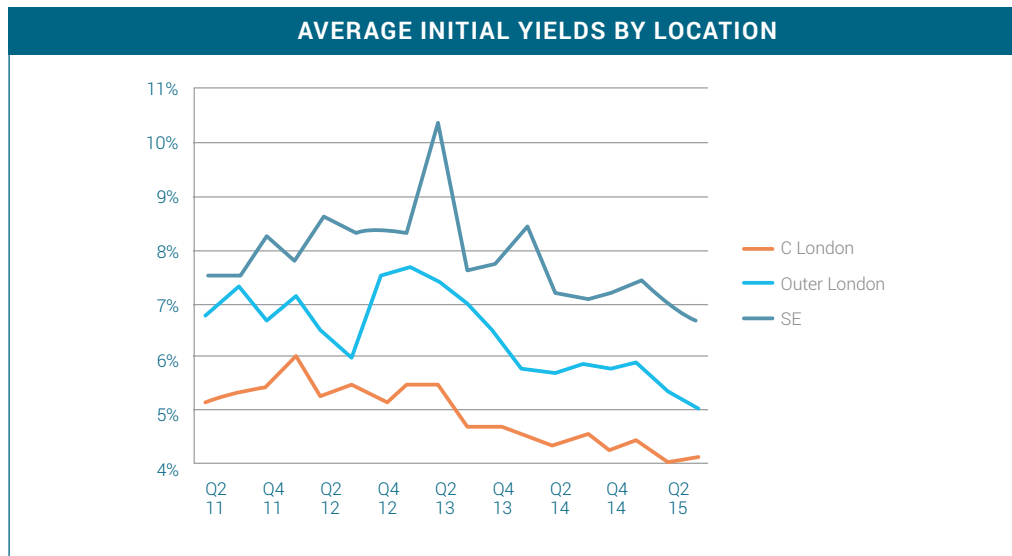
Average initial yield
6.55%

- The average initial yield continued to compress by 21bps (20bps Q2 2015) to 6.55% as seen in the chart below. Retail and retail warehouses initial yields saw an increase of 21bps and 48bps respectively.



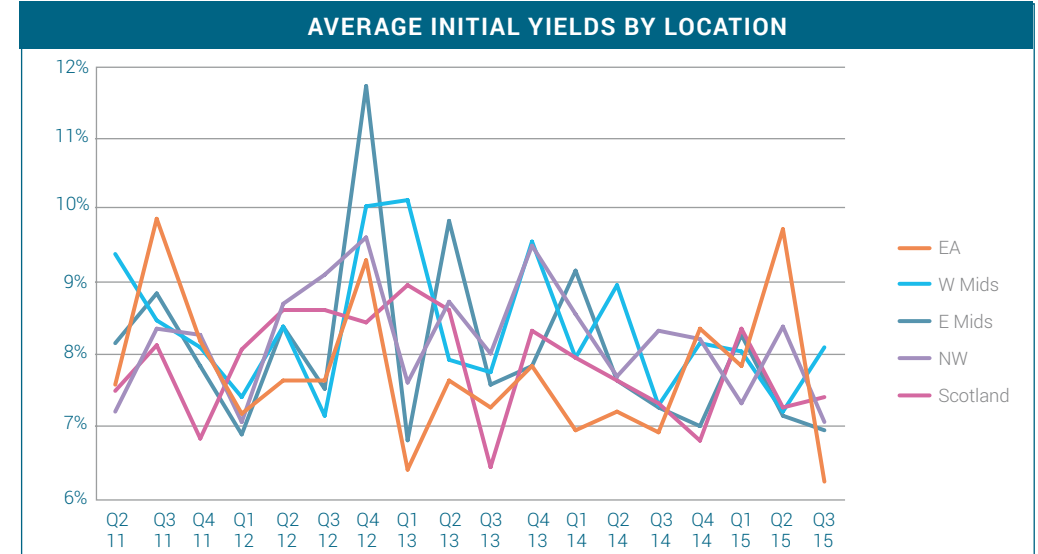
SOURCE: PROPERTY ARCHIVE

- Average initial yields in Central London continued to compress by 18bps. Outer London saw compression of 20bps with the South East by 32bps as illustrated in the chart below.



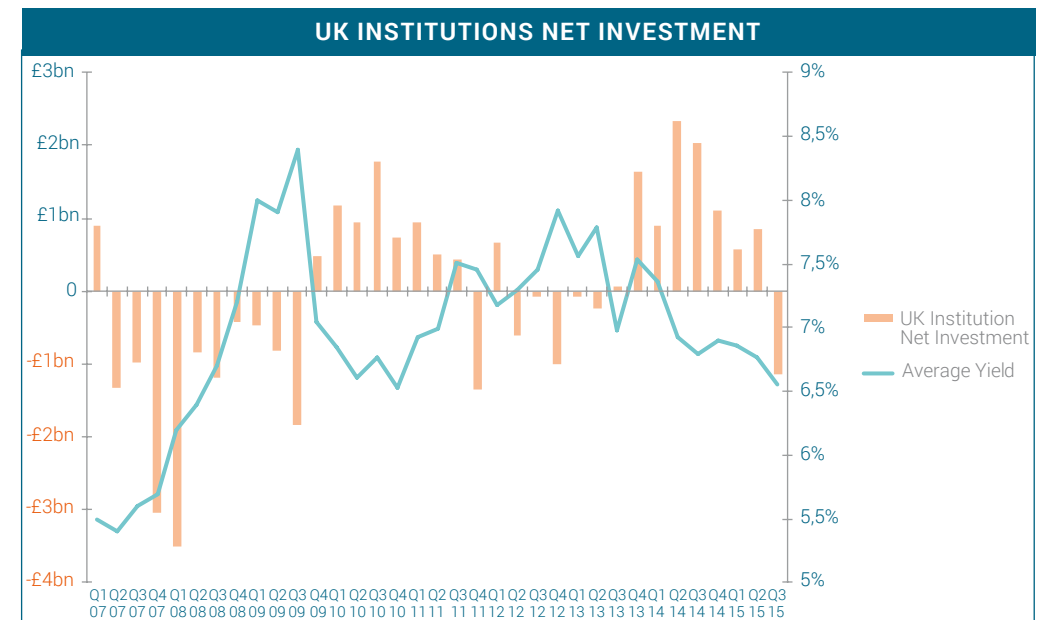
SOURCE: PROPERTY ARCHIVE

- Whereas in other locations there was more volatility with East Anglia showing the biggest average initial yield compression of 350bps and West Midlands the largest increase of 88bps as illustrated in the chart below.



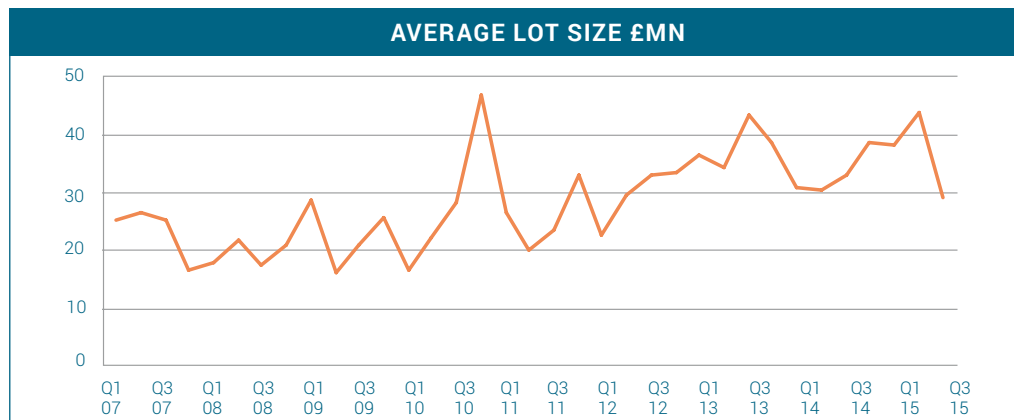
SOURCE: PROPERTY ARCHIVE

- The relationship between UK institutions' net investment and yield movement is illustrated in the chart below. The market is at an interesting junction due to the introduction of UK net disinvestment combined with yield compression which is unlikely to be maintained.



SOURCE: PROPERTY ARCHIVE

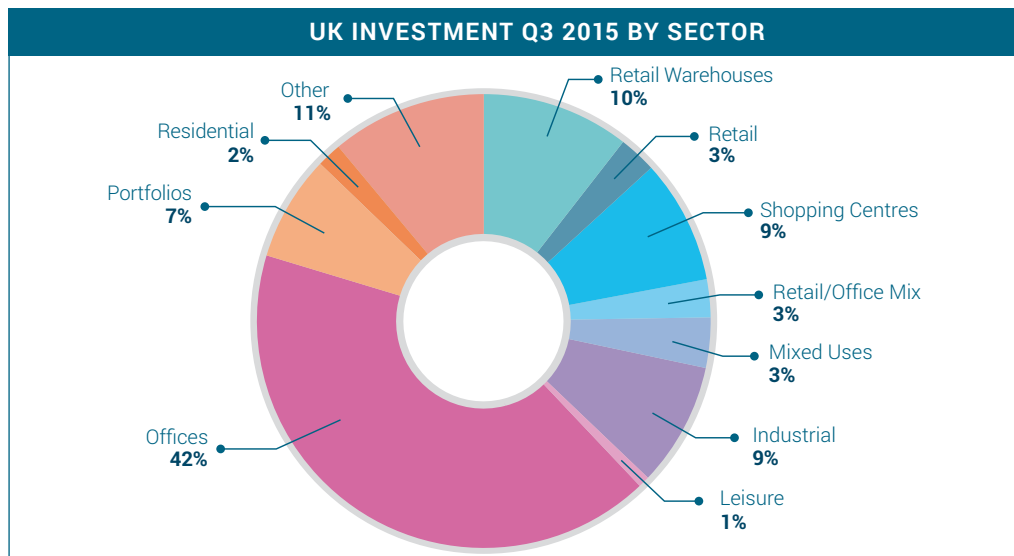
- The average lot size for Q3 2015 decreased to £23.4m from £43.9m in Q3 2015 as shown in the chart below.



SOURCE: PROPERTY ARCHIVE

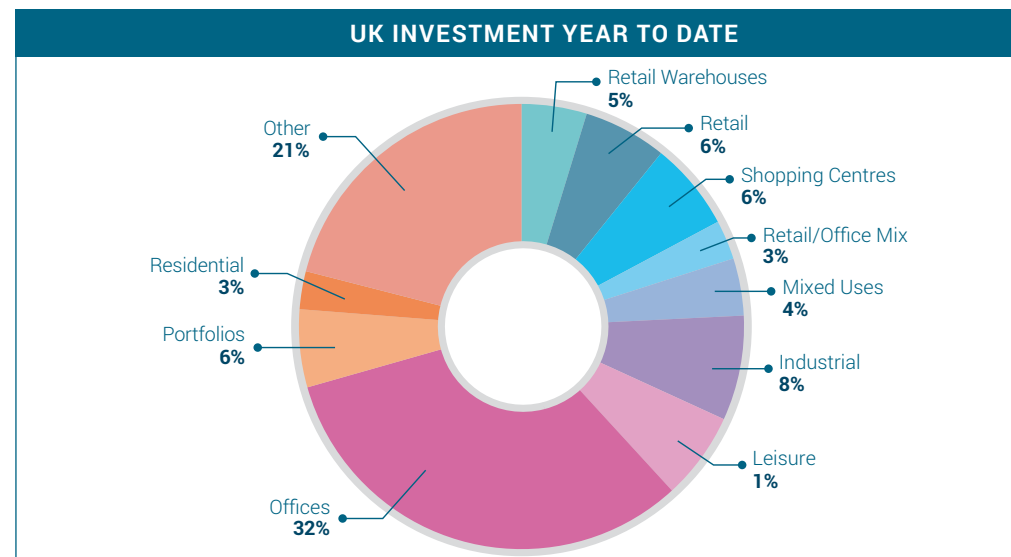
Offices remained the favourite sector **42%**

- Offices remained the favourite sector at 42% followed by other at 11% as shown in the pie chart below. It is a continued high level for other which last year had an overall average of 12%. Other includes motor related, hotels, petrol filling stations, pubs, student accommodation, nursing homes, medical uses, educational and residential. Retail warehouses returned with renewed popularity at 10%.



SOURCE: PROPERTY ARCHIVE

- In Q3 2015, UK institutions mainly preferred to purchase mixed use and industrial. Overseas were the main purchasers of retail/ office mix and hotels.
- On the sell side, UK institutions mostly sold retail warehouses and shopping centres while for UK unlisted property companies it was mixed use and student accommodation.
- Over the year to date offices and other continued to be the favourite sectors at 32% and 21% respectively as shown in the pie chart below.



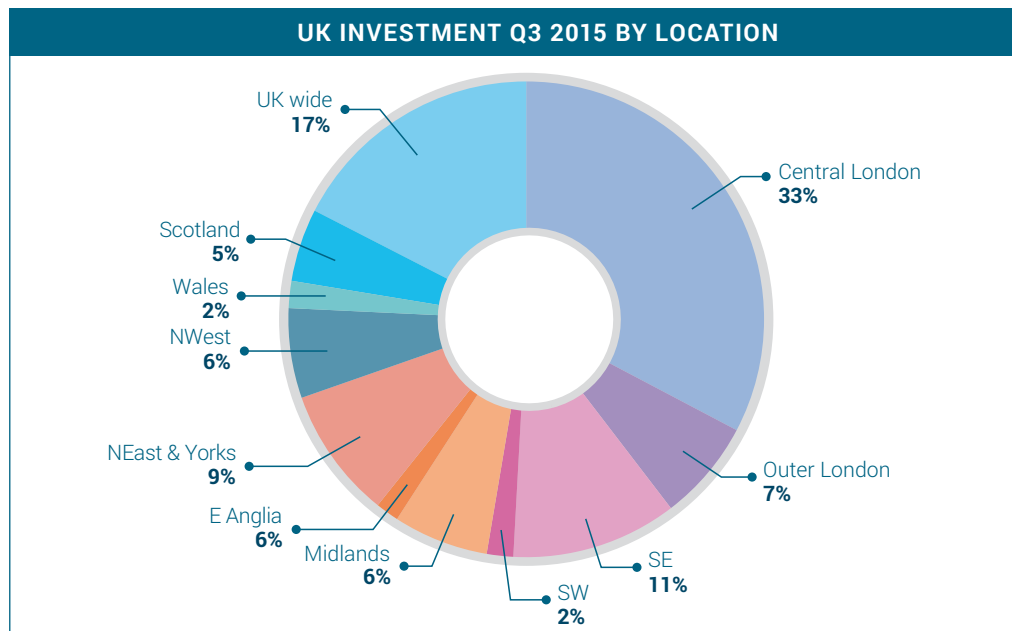
SOURCE: PROPERTY ARCHIVE

- By location in Q3 2015, Central London regained its popularity at 33% as shown in the pie chart below.
- There was an increasing interest in the South East, North East and Yorkshire from Q2 2015.
- Overseas investors remained the big fans of Central London but also branched out across the UK and for example, contributed to over 50% of the purchases in the South West and Scotland.
- UK institutions preferred to buy in Yorkshire, East Anglia and the South East.
- UK unlisted property companies and UK institutions sold mainly across the UK. UK institutions were the main sellers in Wales, Scotland and East Anglia.
- UK REITS were the main sellers in the North East.
- UK institutions were the main net disinvestors in Central London and the largest net investors in the South East.
- UK unlisted property companies were net disinvestors cross all regions.

Central London regains popularity at **33%**

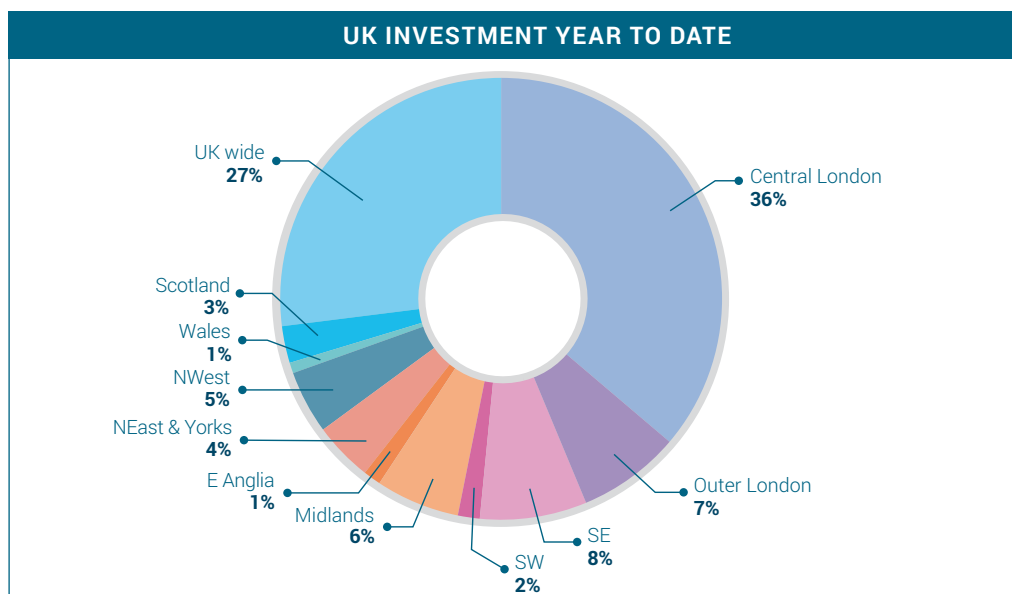
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- UK private investors and overseas were the main net investors in Central London.



SOURCE: PROPERTY ARCHIVE

- For the year to date, Central London and UK wide retained their popularity as shown in the pie chart below.



SOURCE: PROPERTY ARCHIVE

Key Deals

- £550bn forward purchase of One and Two Southbank Place, SE1 purchase by Almacantar from Braeburn Estates
- £437.2m (5.4% IY) purchase of AUK Portfolio by Redefine International Plc from Aegon UK Property Fund
- £400m purchase of Kew Green hotel portfolio by HK CTS Metropark Hotels from Goldman Sachs/TPG Special
- £259.3m purchase of Alphabeta Building, Finsbury Square, EC2 of Sinar Mas Land from Resolution Property
- £245m (3.4% IY) purchase of West One, Oxford St, W1 by Norges Bank IM from Railways Pension Nominees.

Looking Forward

- The UK property market peaked in Q2 2015. Now is the time to be defensive and lock in the cashflow. The UK economy is slowing down and the pent up occupational demand has mostly been fulfilled. Both prime and secondary are expensive as the anticipated rental growth is already priced in. Prime property might warrant a closer look as and when UK interest rates rise.





DEFINITIONS & METHODOLOGY

Source of data

The data is derived from a wide range of research involving cross-referencing of information from property press, auction results, agents' letting and sales particulars, Land Registry, Company and Fund reports, company websites, press releases and direct research. The data from 3rd parties are deemed to be reliable and most transaction records are confirmed by two or more independent sources. We cannot, however, guarantee accuracy and the data is subject to future amendments.

Transactions

The purchase of a property or a number of properties in a single transaction such as a shopping centre or an industrial park or a portfolio (see def. below) of properties. Interests include freehold, long leasehold or virtual freeholds for investment and owner occupation. With company takeovers, mergers and swaps only property assets are included.

Price

For this exercise transactions acquired for below £1m are not included.

Initial yield

The initial return on income at purchase as reported by two or more reliable sources.

Rent per SQ FT

As reported

Zone A

As reported

Average

the arithmetic method as opposed to the Weighted average

Date

The date of completion as verified by The Land Registry or when the transaction was reliably reported and confirmed by at least two independent sources.

Quarter dates

We have split the data by quarters;
1 January to 31 March, 1 April to 30 June,
1 July to 30 September and 1 October
to 31 December.



Offices

Mainly used for Class B1 office use including business parks and Science Parks with an element of Research and Development space. Buildings which have a significant proportion of retail space are classified "Retail/Offices" and those that have a significant proportion of industrial space are classified "Industrial/Offices"

Retail

Use Classes A1, A2 (financial services such as Estate Agents) and A3 (restaurants). Also includes supermarkets and superstores and out of town shopping parks and factory outlet centres where non-bulky goods are sold predominately

Shopping Centres

Includes regional shopping centres and centres over 20,000sqft but does not include parades or arcades

Retail Warehouse

Includes usually large units selling bulky non food goods in out of town parks and standalone units

Industrial

Includes B8 distribution warehouses as well as B2 manufacturing buildings and Trade Counter Uses and Self Storage

Leisure

Health Clubs, Bingo, Leisure Parks, Cinemas, bowling alleys etc. Please note it does not include hotels or pubs which are classified separately or restaurants (which are classified retail)

Mixed

Where there are more than 2 main uses such as a property that comprises retail, offices, leisure and residential uses

Portfolio

Where two or more distinct properties are bought of more than two sectors. Where a portfolio comprises buildings of the same uses such as offices the transaction will be placed under that sector rather than Portfolio

Motor -Related

Usually car showrooms, MOT and tyre and exhaust centres etc. Not petrol station which are classified separately

Medical Uses

Doctors, Dentists, surgeries etc

Student Accommodation

Primarily residential use for students in buildings held as investments

Nursery

Care homes and Nursing Homes



Institutions

Pension funds, property unit trusts, unit trusts, insurance companies etc. Also UK Government, County and Local Councils. Property Companies – Non –quoted UK registered companies

PLC Property Companies

Property companies quoted on the London Stock Exchange, AIM and OFEX

Private Investors

UK based including syndicates and banks and financial institutions and private equity firms acting for private investors

Owner –Occupiers

Companies that have acquired property primarily for their own occupation

Joint Ventures and Limited Partnerships

An apportionment will be made between different types of investor where known

Not Known

There are many transactions where it is difficult to identify the purchaser since many will be held in offshore registered companies and in subsidiary companies but we make every effort to identify ownerships through research including the Land Registry. Where it is not possible to verify ownership we categorise ownership as not known.

Overseas Investors

This does not include UK based investors who have financial backing from overseas companies. We have split overseas investor into the most active; **Irish, German, Middle East, European, Scandinavian, USA, Canadian, Israeli, Far East, Australian, Russian, Indian, South African.**



Central London

WC, W1, W2, W6, W8, W11, SW1, SW3, SW6, SW7, SW10, SE1, NW1, N1, EC1, EC2, EC3, EC4, E14 (Canary Wharf)

Outer London

London Boroughs outside Central London including those in Surrey, Kent, Essex, Middlesex, Hertfordshire.

South East

Counties (other than those Boroughs in Outer London) of Surrey, Kent, East Sussex, West Sussex, Essex, Hertfordshire, Buckinghamshire, Berkshire, Oxfordshire, Hampshire. Also Channel Islands.

South West

Dorset, Devon, Cornwall, Wiltshire, Somerset, Bristol

West Midlands

Birmingham, Warwickshire, Herefordshire, Worcestershire, Shropshire, Staffordshire, Gloucestershire

East Midlands

Northamptonshire, Leicestershire, Nottinghamshire, Derbyshire, Bedfordshire

East Anglia

Suffolk, Norfolk, Cambridgeshire, Lincolnshire

Wales

Scotland

North West

Manchester, Liverpool, Lancashire, Cheshire, Cumbria. Also Isle of Man

Yorkshire

North East

Newcastle, Durham, Tyneside, Northumberland

Northern Ireland



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The Property Archive is a UK real estate information provider and the acknowledged market leader in UK commercial property investment transaction capture.

www.propertyarchive.co.uk

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