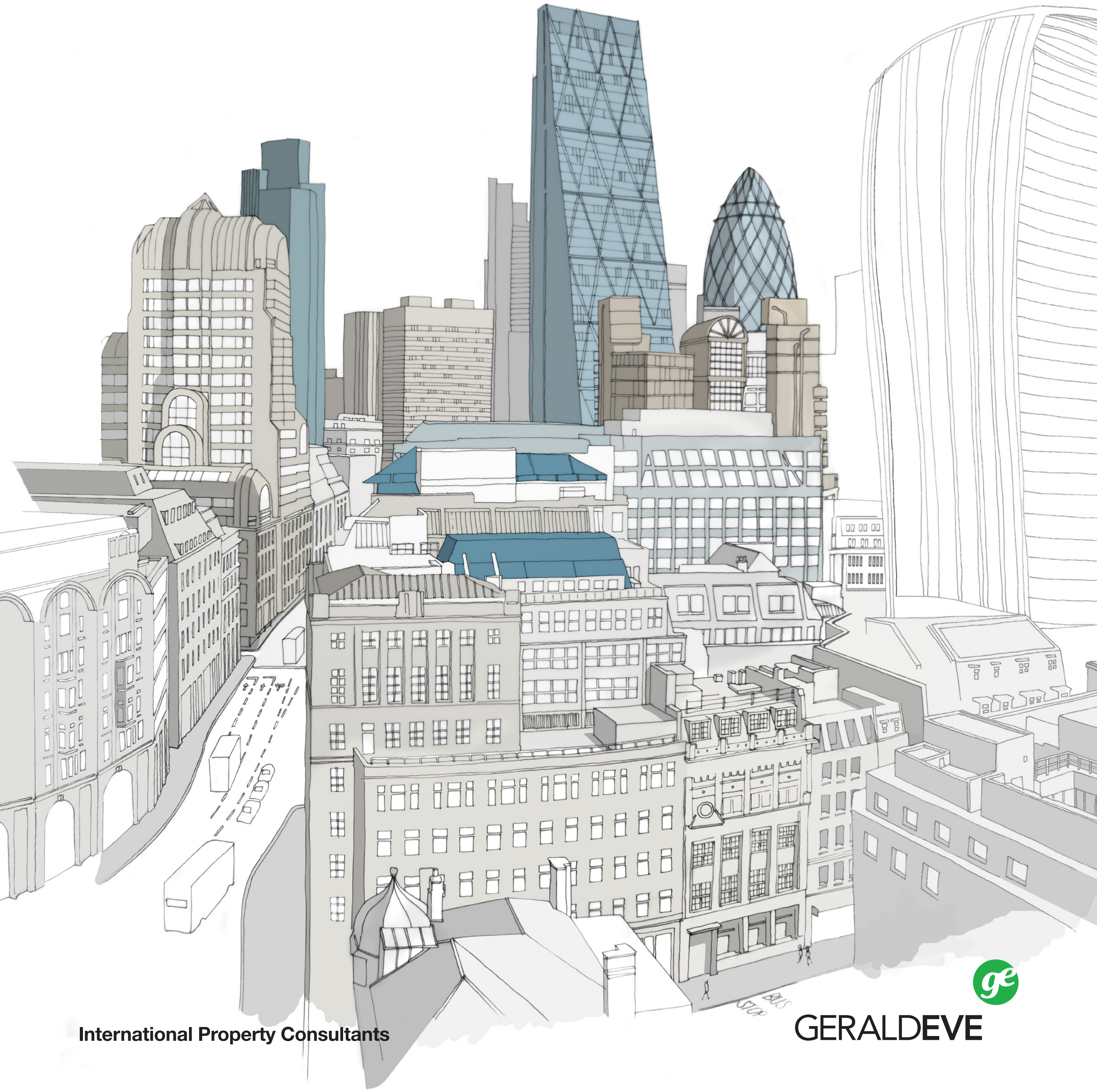
# INVBRIEF

## Property investment market

Winter 2017/18




International Property Consultants

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**3.0%**

**CPI Inflation December 2017**

**0.5%**

**Growth in GDP in Q4 2017 (ONS)**

## ECONOMY

For the first time in over a decade, the Monetary Policy Committee voted to raise interest rates to 0.5% in November 2017. The raise was universally expected in the City which reacted to the accompanying comments by the Bank of England that suggests that further rates rises are only likely to happen towards the end of 2018, putting downward pressure on the pound. Mark Carney, the governor of the Bank of England, has been proactive at communicating the Bank's position on monetary policy ahead of key announcements, preferring to drip-feed information so as to avoid surprises which create unhelpful volatility in the markets.

Inflation as measured by the Consumer Price Index (CPI) reached 3.1% in November, the highest level since March 2012 and substantially higher than the Bank of England's target rate of 2.0%. The Bank of England's most recent inflation report, published in November, suggests that inflation is expected to fall towards the target level during 2018 and indeed the latest figures for CPI published in January show that inflation moved down to 3.0% in December. The risk remains that any further depreciation in the pound could cause inflation to rise which may leave the MPC with little choice but to announce further rates rises sooner than they hope to.

There is evidence that relatively higher inflation coupled with stagnant wage growth is eroding consumer spending power, which had a negative impact on the automotive industry as well as some retailers during the busy Christmas shopping period. The Bank of England is however forecasting that wage growth will exceed inflation in 2018, as record low unemployment forces employers to increase pay rates.

Whilst the inflationary impact of the fall in sterling has been widely felt, the expected positive impact of an improvement to the UK's trade deficit has yet to materialise. That said, the weak UK currency situation is expected to boost exports in 2018 which should reverse some of the trade deficit.

Household debt continues to be a key risk to the wider economy. Research by Standard and Poor's said that consumer debt passed the £200bn mark in 2017 whilst household debt exceeds 80% of GDP and continued to rise. UK consumers will remain highly sensitive to any further increase in interest rates which we expect to happen in the second half of 2018.

**Brexit – one step forward**

Whilst there has been some progress in the Brexit negotiations, the vulnerability of the minority Conservative government was exposed as the DUP threatened to derail negotiation over the border proposals between the Republic of Ireland and Northern Ireland.

Phase one of the negotiations concluded in December with a joint report issued that covered some of the issues. The report covered issues including the protection of rights of UK citizens in the EU and EU citizens in the UK, a framework for Northern Ireland including the avoidance of a hard border and a financial settlement, however, the inclusion of the remark "nothing is agreed until everything is agreed" served as a reminder that some of the most challenging issues have yet to be discussed.

Perhaps the most important outcome from the first round of Brexit negotiations was the confirmation that there will be a two year implementation period. A transition phase will allow government and businesses to implement any changes needed for a successful UK withdrawal from the EU which should ensure a smoother departure.

The progress in the Brexit negotiations is a small step in the right direction but with only limited details being made public and while the negotiations are still only at an early stage, businesses remain understandably very cautious.

Ultimately, any Brexit deal will need to be ratified by the 27 other member states. The risk of any of these parties, including our own parliament, refusing to ratify an agreement is very real with consequential affects within the UK economy.

**Outlook**

Despite all the uncertainty, the UK economy remains resilient and continues to grow. The last quarter of 2017 saw growth of 0.5% beginning a “recoupling” with the world economy. This is notwithstanding the uncertainty surrounding Brexit. The UK economy could be outperforming most other advanced economies as we move closer to the March 2019 deadline when hopefully the Brexit picture becomes clearer in particular with regard to future trading relationships.

We expect inflation to edge back towards the Bank of England’s target rate of 2.0% in the latter part of 2018 and this in turn will have a positive effect on UK consumers. This however is subject to exchange rate movements which in turn will, amongst other factors, be influenced by the direction and magnitude of interest rate increases. The loose monetary policy that has been favoured by the Bank of England looks set to continue in the medium term and any interest rates rises will be in line with the current narrative projected by the Bank of England.

We expect the commercial property market will remain steady as investors defer some of their investment activity in the first half of 2018. We however believe that investor sentiment will pick up towards the end of the year. Details of any trade agreement in a post Brexit world may become clearer in Q3 2018 at the very earliest but are only likely to be understood at the beginning of 2019, at which point there will be a potential release of pent up investment activity.

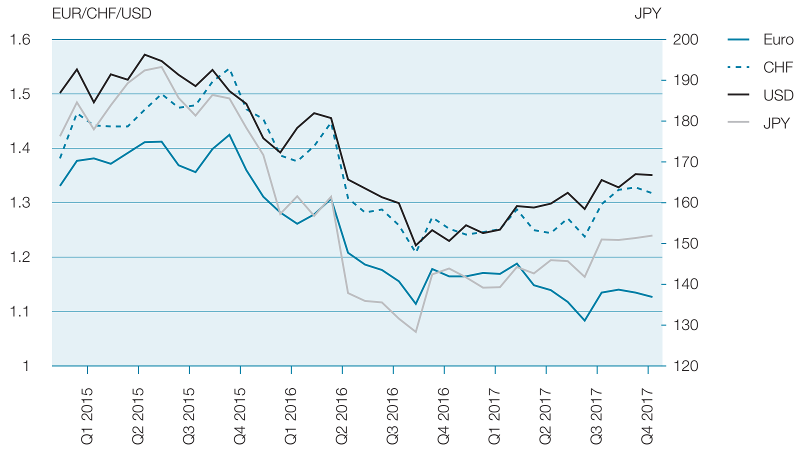
Whilst Brexit negotiations are unquestionably holding back growth in the UK economy, the medium to long term prospects of the UK are slowly improving and we expect continued improvements throughout 2018.

**Fig 1. CPI and Bank of England Interest Rate**

Source: ONS & Bank of England


**Fig 2. Price of Sterling in foreign currency**

Source: Bank of England



**21.1%**

**Industrial total return 2017 (MSCI monthly data)**

" Capital growth was greater than income growth during 2017. "

## COMMERCIAL PROPERTY

UK commercial property delivered total returns of 9.5% in the year to September 2017 according to MSCI quarterly data, the highest growth over a four-quarter period since Q1 2016. Total return in Q3 was 2.5% which compared favourably to the -1.2% reported in Q3 2016 shortly after the EU referendum. The All Property total return index is now 8.1% above where it was in the period preceding the Brexit vote.

Capital growth was greater than income return growth for the first time since Q4 2015 as capital growth increased in Q3 by 1.3%, the highest capital growth over a quarter since Q4 2015. The latest growth figure also compared favourably to the -2.4% growth reported in Q3 of 2016 after the Brexit vote. Income return remained steady at 1.2% over Q3 2017 and 4.9% over the previous 12 month period.

**Total returns**

Once again, the industrial sector was the strongest of the three major sectors with total returns reaching 16.8% for the year to September 2017. Total return growth was largely driven by capital growth of 11.1% for the year and 3.2% in the quarter. Industrial total return at 4.4% in Q3 2017 continued to outstrip total returns for both office and retail which grew 2.0% and 1.7% respectively.

Industrial returns in London were the highest in the country according to MSCI with total returns of 5.2% as capital growth in the sector remained steady at 4.2% for the quarter bringing the annual figure to 19.8%. The Eastern segment also performed strongly at 5.0%. Scotland had the lowest industrial total return growth at 2.2% which was still higher than the previous quarter's growth of 1.8%.

Office total returns were strongest in the Yorkshire and Humber region at 3.2% for the quarter whilst returns recorded in the Eastern region and Wales were 3.1% and 3.0% respectively. Returns in London were 2.7% for Outer London and 1.7% for Inner London. West End office returns overtook City returns as West End returns rose to 1.8% from 1.7% in the previous quarter, whilst City returns fell to 1.8% from 2.1%.

Quarterly retail total return reached 1.7% in Q3 with a total return of 6.8% recorded over the 12 month period.

Standard shops delivered total returns of 8.6% in the year to September 2017 with returns for the quarter at 2.2%. For the second successive quarter, West End retail was the best regional performer, delivering total returns of 3.4% compared to 2.7% in the previous quarter. Shopping centres total returns fell to 0.2% for the quarter as capital growth stayed negative at -2.1% offset by 2.4% growth in income return. The MSCI capital growth index for shopping centres remains 4.1% below the level set in June 2016 before the EU referendum and continues a downward trend that started in Q4 2015.

Retail warehouses had a stronger quarter with a total return of 4.2% as capital growth reversed its downward trend with growth of 1.4% reported over the quarter. This took the annual total return reported to 13.9% as the negative total return in Q3 2016 fell out of the annualised figures.

**Rental growth**

All property rental growth was 2.2% in the year to September 2017 and 0.6% in Q3 2017, according to MSCI quarterly data. This was the highest quarterly growth rate since Q1 2016 as the market showed signs that it may be beginning to pick up.

Rental growth in the retail sector was 1.3% in the year to September 2017 however the two most recent quarters have seen slightly increased growth with 0.5% reported in Q3 2017. Once again, nationally, West End retail rental growth was the strongest as average rents grew 4.9% in the four quarters to September 2017. The North West had its strongest rental growth since before the 2008 recession with growth recorded at 3.5% whilst the North East, East Midlands and West Midlands saw negative growth in the retail sector of 0.8%, 0.3% and 0.6% respectively for the 12 month period.

Nationwide, industrial rental growth reached 5.0% for the year to September 2017 as the sector experienced its highest quarterly rental growth, at 1.3%, in over a decade. Rents in the Eastern region have grown the most, at 7.3% over the last 12 months whilst London rents have grown by 6.4% over the same period. Growth in Scotland has been the slowest at 0.5% for the year and 0.1% in the quarter.

Office rental growth slowed to 1.4% over the year to September 2017. The South West was the strongest performer with 3.8% growth recorded whilst growth in Scotland continued to contract and was -2.6% over the 12 month period.

**Yields**
Equivalent yields contracted by a further 7 bps in Q3 2017 bringing the total contraction over the 12 month period to 27 bps. Yield compression in the leisure and industrial sectors was most pronounced with leisure yields falling by 99 bps to 11.2% and industrial yields falling by 49 bps to 5.9% over the year to September 2017.

Retail equivalent yields were 5.6% – 16 bps lower than they were 12 months ago – although the change over Q3 2017 was minimal. At the quarter end retail equivalent yields in the West End stood at 3.6% whilst City and Mid Town yields were 4.2%. Outside of London yields were spread between 5.6% in the South East and 6.5% in Wales.

Office equivalent yields contracted 21 bps to 5.8% over the year to September 2017 as four consecutive quarters of yield compression drove capital values higher. At the end of Q3, West End office yields stood at 4.3% – the lowest yields that MSCI have recorded. City yields also contracted over the period from 5.5% in Q3 2016 to 5.3% in Q3 2017. The only region where office yields did not expand over the year to September 2017 is Scotland where yields remained at 7.5%, the same level they were at 12 months previously.

Industrial equivalent yields were 49 bps lower than 12 months ago at 5.9% as investor appetite for the asset class continued to grow.

**2017 results**
Industrial was the strongest performer of the three major sectors in 2017 according to the MSCI monthly figures with a total return of 21.1% driven largely by capital growth of 14.7%. The corresponding total return figure for 2016 was 7.0%.

Office total returns for the year were 8.5%, compared to 1.0% in 2016, as income return and capital growth figures reported were 4.8% and 3.5% respectively.

Retail total returns according to the monthly data were 7.7%, up from the 1.1% reported in 2016, as income return reported was 6.1% and capital growth 1.5%.

**Fig 3. Total return by sector – year on year % change**
Source: MSCI

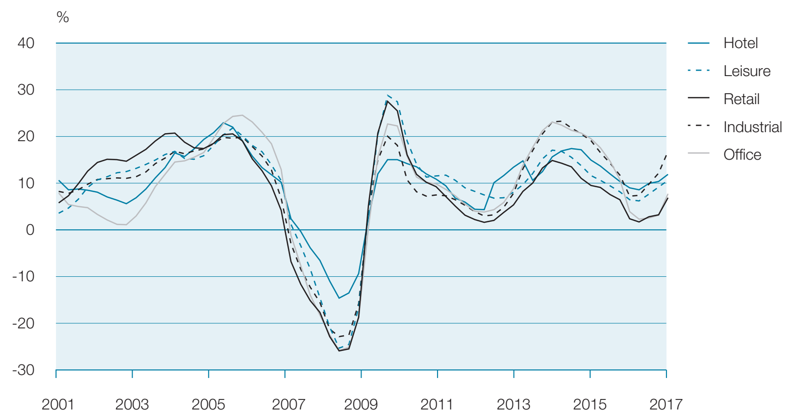
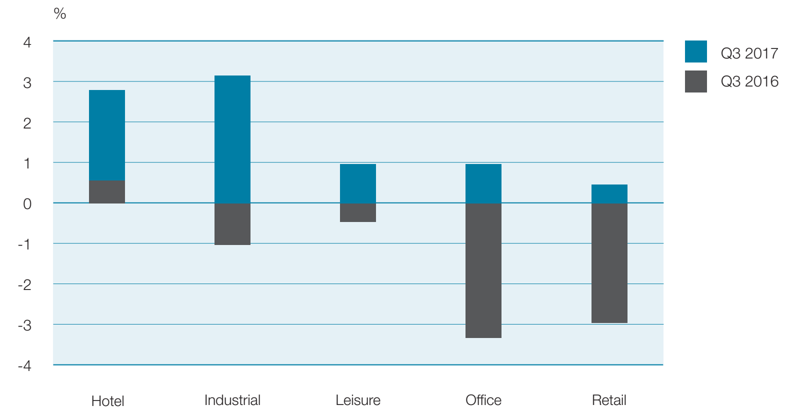



**Fig 4. One year on from the referendum – Q3 capital growth by sector**
Source: MSCI



# 4.5%

**Gerald Eve Total Return forecast for 2018**

" The resilience of the commercial real estate market has continued to surprise… we take the view that markets are close to peak values. "

## FORECASTS

**Rental growth**

2018 commences on a relatively optimistic note. Occupier markets continue to be resilient and fundamentals remain sound, having not altered over the last six months or so.

Due to the range of possible outcomes resulting from Brexit, the impact on business is evidenced in deferral of investment activity, with consequent knock-on effects for commercial property. The silver lining of development projects being put on hold or postponed is that inflation in medium term supply is set to be muted, tempering downward pressure on rents. Concerns about firms wishing to move staff abroad wholesale after Brexit seem to be diminishing, albeit the risks are still there.

Take-up in the City in 2017 exceeded that in 2016. The supply of new office space will remain constrained in 2018. Major schemes are being delayed as pre-lets are sought before any new construction commences.

Although the underlying fundamentals for the London office markets remain relatively good, the potential Brexit impact does, nonetheless, created ongoing uncertainty. For the City and West End office markets, we expect rental growth to dip into negative territory in 2018, -0.4% and -0.5%, picking up into positive figures of 0.5% and 0.7% respectively in 2019.

As for the retail sector, whilst shopping centres are unlikely to show any rental growth in 2018, both standard shops and retail warehouses will exhibit positive rental growth in 2018 and 2019. Over the five-year period 2017-2021, annual rental growth will average around 1% across the retail sub-sectors.

UK logistics and distribution continue to remain attractive, driven by growth in e-commerce. Rental growth in all industrial sectors is anticipated to provide the highest figures, compared to the office and retail sectors across the forecast period. In 2018 we expect rental growth in excess of 3% falling off to 2.5% in 2019. Over the five years 2017-2021, the industrial sector will deliver the highest annual average growth rates, averaging over 2% per annum.

At the all property level, we anticipate positive rental growth, each year, across the forecast period. Rental growth in 2018 and 2019 will be in the region of 1% each year. Over the five-year period 2017-2021 annual rental growth will be in the region of 1.3%.

**Total returns**

The resilience of the commercial real estate market has continued to surprise many commentators. There has been no collapse in sentiment towards commercial property as an investment asset, for both domestic and non-domestic investors. The awaited correction across a number of sectors does not seem to have materialised. Despite development projects being put on hold or postponed.

**Table 1. Rental growth forecast (%pa)**

| Sector | 2018 | 2019 | Average 2017-21 |
|---|---|---|---|
| Standard shops | 0.5 | 1.2 | 1.0 |
| Shopping centres | 0.0 | 0.9 | 0.8 |
| Retail warehouses | 0.3 | 0.5 | 0.8 |
| West End offices | -0.5 | 0.7 | 0.8 |
| City offices | -0.4 | 0.5 | 0.8 |
| South East offices | 1.6 | 1.1 | 1.1 |
| Offices (all) | 0.2 | 0.5 | 0.8 |
| Standard industrials | 3.4 | 2.5 | 3.1 |
| Distribution warehouses | 3.3 | 2.5 | 2.9 |
| All property | 0.9 | 1.1 | 1.3 |
| | *(0.4)* | *(0.6)* | *(1.1)* |

Figures in brackets represent IPF Consensus Forecasts

**Table 2. Total return forecast (%pa)**

| Sector | 2018 | 2019 | Average 2017-21 |
|---|---|---|---|
| Standard shops | 3.0 | 7.0 | 5.1 |
| Shopping centres | 4.2 | 5.9 | 5.1 |
| Retail warehouses | 4.8 | 6.9 | 5.9 |
| West End offices | 1.7 | 6.2 | 5.4 |
| City offices | 2.0 | 5.6 | 5.2 |
| South East offices | 7.2 | 7.7 | 6.3 |
| Offices (all) | 3.5 | 6.0 | 5.5 |
| Standard industrials | 7.5 | 6.7 | 8.0 |
| Distribution warehouses | 6.8 | 6.4 | 7.4 |
| All property | 4.5 | 6.4 | 5.9 |
| | *(4.0)* | *(4.2)* | *(5.4)* |

Figures in brackets represent IPF Consensus Forecasts

However, we take the view that the markets we are forecasting are close to their peak values. Indeed Mark Carney, the Governor of the Bank of England, has observed "property priced at such low yields is likely to be vulnerable to interest rate increases." The prospect of further interest rate rises has been signalled by the Bank for some time.

Across the board, performance will be driven by income return. With the prospect of little or no favourable yield impact, investors will be looking for stable income returns. Consequently, longer-term leased retail property will likely be in strong demand. Dependable long-term income will be the order of the day over the medium term, and therefore, will be highly valued by investors. Needless to say, properties with secure stable income profiles will command a premium.

Our current base case scenario is that central London office markets deliver the lowest returns in both 2018 and 2019. In 2018, we put total returns in the City at 2.0% and West End at 1.7%. In 2019 we expect an improvement in the figures, with total returns rising to 5.6% in the City and 6.2% in the West End. South East offices are expected to outperform the central London office markets by a considerable margin, delivering positive total returns in both 2018 and 2019 at 7.2% and 7.7%.

Whilst the mood amongst retails appears to be restrained, the continuing growth in e-commerce bodes well for distribution warehouses which will attract attention from investors. The combination of restricted supply and robust demand for industrial space will ensure that industrials will be the best overall performing sector in 2018 and 2019.

Over the five-year period 2017-2021 standard industrials are expected to deliver the best performance, averaging annual total returns of 8%. All of the industrial sectors are expected to deliver annual average returns in excess of 7% over the period 2017-2021.

In 2018, all property total returns are forecast to be 4.5%, rising to 6.4% in 2019. Over the five-year period 2017-2021, average annual total returns are expected to be in the region of 6%.

**Fig 5. Historic and forecast 5yr annualised total return**
Source: Gerald Eve Research, MSCI

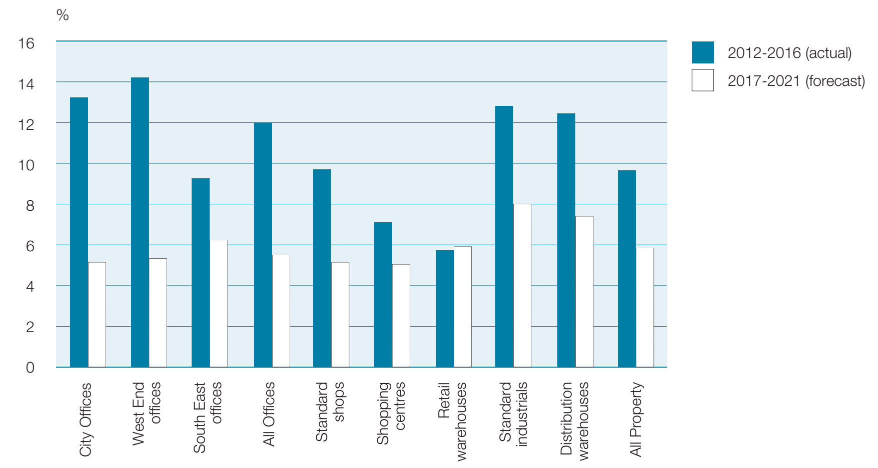



**Fig 6. Historic and forecast 5yr annualised rental growth**
Source: Gerald Eve Research, MSCI

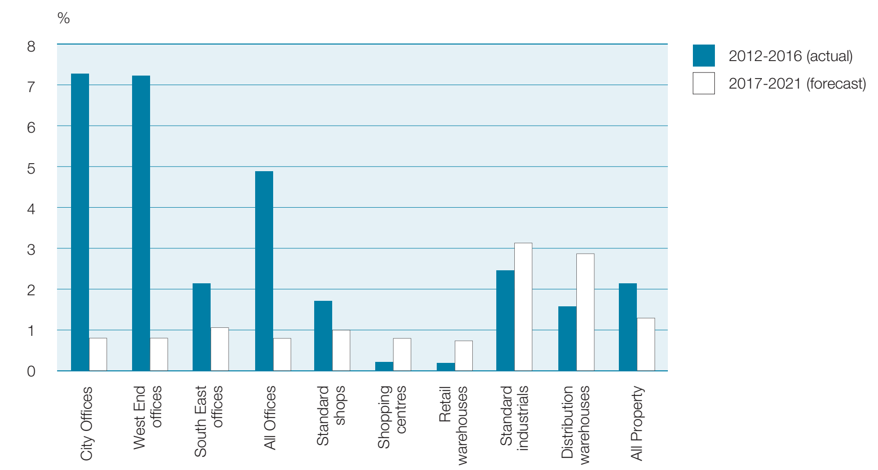
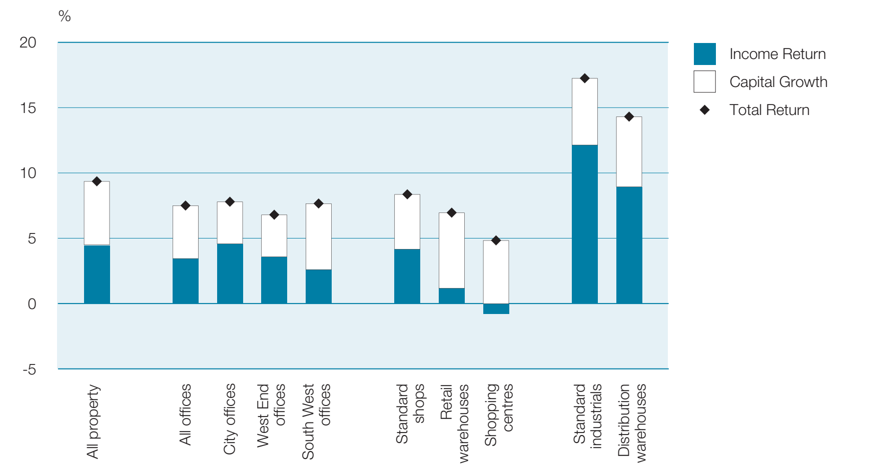



**Fig 7. Investor Returns – Year to September 2017**
Source: MSCI



" Although London property has become more attractive due to the fall in sterling, this city is perhaps more at risk of further price corrections in the coming quarters. "

" The UK industrial sector, including both single-let and multi-let industrial assets attracted a significant amount of investor interest during 2017. "

## INVESTMENT & FINANCE

**City Offices**

£2.2bn of City office stock was traded in the fourth quarter of 2017, according to Property Data which took the annual total to £7.5bn, a 47% increase on 2016 and the highest volume recorded for three years. Prime assets in the City were in high demand, particularly from foreign investors, lured by the drop in sterling, a slight softening in prices, and long-term faith in London. This increased demand from foreign investors has been the key driver behind the surge in transactions throughout the year, with 93% of London transactions coming from overseas buyers.

The standout transactions were CC Land's £1.2bn purchase of the Leadenhall Building and LKK's £1.3bn purchase of 20 Fenchurch Street. The latter transaction represents a record for a single UK asset, surpassing the £1.2bn paid by the Qatar Investment Authority to acquire the HSBC Tower in Canary Wharf in December 2014.

Whilst office investors will continue to favour these well located, high quality assets despite the uncertainty of the future relationship between the UK and the EU, they will exercise greater caution when it comes to secondary stock, which has been much more subdued in terms of transaction activity in 2017. This reflects an aversion to risk in the light of worsening fundamentals and concern over the impact of Brexit on both occupier demand and liquidity.

Although London property has become more attractive, due to the fall in sterling, the City is perhaps at particular risk of further price corrections in the coming quarters, due to rising levels of availability and the likely hit to market fundamentals and rents.

**West End Offices**

In the West End, transaction volumes reached £3.8bn in 2017, with 74% of the deals taking place in the first half of the year. Once again foreign investors have been behind the vast majority of activity, with investors from Canada, China/Hong Kong, Germany, Norway, Singapore, and the Middle East capitalising on the fall in sterling to purchase prime West End assets at a discount.

The largest deal in 2017 was by German investors Deka and WestInvest, which purchased Rathbone Square, the new headquarters of Facebook, for £435m. This deal did however show some evidence that the market is softening as the transaction reflected a 4.25% net initial yield (NIY) which was 25 basis points higher than the property was under offer for before the referendum in 2016.

Chinese and Hong Kong investors also bought heavily in 2017, notably Hong Kong investor Emperor Group bought 180 Wardour Street for £260m, reflecting a NIY of 2.9%. This followed CC Land's purchase of One Kingdom Street in Paddington for £292m, a 4.9% NIY, earlier in the year.

**Regional Offices**

The regional office markets were subject to strong investor demand during 2017, with a significant weight of capital targeting core provincial centres in order to hit their return hurdles. A record year for regional occupational take-up, driven largely by the five GPU Property Unit Deals (HMRC Regional Hubs), coupled with moderate levels of speculative development has further impacted the supply/demand imbalance making many regional centres more attractive to investors. A rise in investor demand over the course of the year has seen yields sharpen in core markets with prime yields below where they were at the start of 2017.

Rising demand from pension funds and a rise in institutional activity during 2017 has continued to drive a quest for investments that deliver long and secure income. Whilst appetite for UK property remains strong amongst overseas buyers, demand for best in class properties across the UK regional cities has driven down prime yields to pre-recessionary levels.

Whilst investors remain cautious over market conditions and the security of their investment decisions, we are seeing a shift in pricing and a considerable yield disparity between prime and fringe-prime assets of up to 100 bps. The widening gap between prime and fringe prime has created a window of opportunity for investors who are able to take on higher risk returns and are now able to acquire real estate at a risk-adjusted relative discount in a market with a constrained supply/demand dynamic.

Institutional investors were again the most active buyer type during Q4 as many sought to allocate capital with Royal London Asset Management, BMO Rep and TH Real Estate all acquisitive. Prominent deals during Q4 included BMO Rep's acquisition of One Cathedral Square in Bristol from Mercer for £33,500,000 at a NIY of 5.00%, Fidelity's acquisition of Meridian in Manchester from TRIUVA for £24,525,000 at a NIY of 4.85%, KFIM's acquisition of 10 Cannons Way, Harbourside in Bristol from Topland for £95,500,000 at a NIY of 5.19%, RLAM's acquisition of 5 St Phillips Place in Bristol for £47,000,000 at a NIY of 4.70% and TH Real Estates acquisition of 55 Colmore Row in Birmingham for £98,000,000 from IM properties at a NIY of 4.90%.

**Retail**

Prime retail yields remained stable across 2017 despite total investment transaction volumes in the sector falling by 30% in Q3 2017 from Q3 2016.

Prime high street assets in London remain in strong demand with limited available stock which was evidenced by the competitive bidding on 386 Oxford Street, let to Dr Martens which sold for £29.5m at a NIY of 2.0%. Aberdeen Asset Management sold 32-33 Long Acre, Covent Garden for £20.6m reflecting a NIY of 2.4%.

Prime regional assets let to strong covenants have also performed well evidenced by Merseyside Pension Funds purchase of 129-132 North Street, Brighton for £31.6m with 85% of the total income secured against Boots for 16 years, a deal which reflects a NIY of 4.5%.

Department stores continue to be in high demand as demonstrated by Anders Holch Povlesen's purchase of House of Fraser, 47-52 Princes Street, Edinburgh for £53m, at a NIY of 4.7% and Atrium Capital's purchase from Standard Life for the Debenhams in Nottingham at a price exceeding the £24m asking price reflecting a NIY of c.5.3%.

Sentiment is perhaps the most negative in the shopping centre sector with only 26 deals recorded for 2017 representing a 7 year historic low. The largest of the deals for the quarter was Royal London's £155m purchase for a 7.5% stake of Bluewater Shopping centre representing a NIY of 4.5%.

**Fig 8. Internet sales as a percentage of total retail sales**
Source: ONS

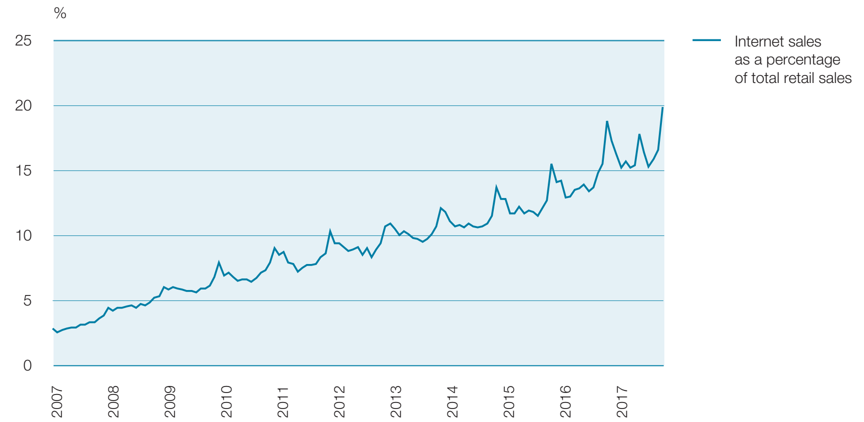



**Fig 9. Proportion of acquisitions by investor type (rolling quarterly average)**
Source: Property Data

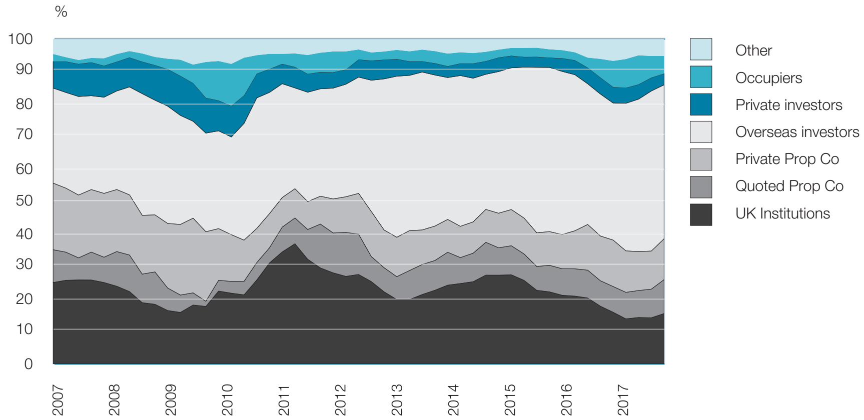
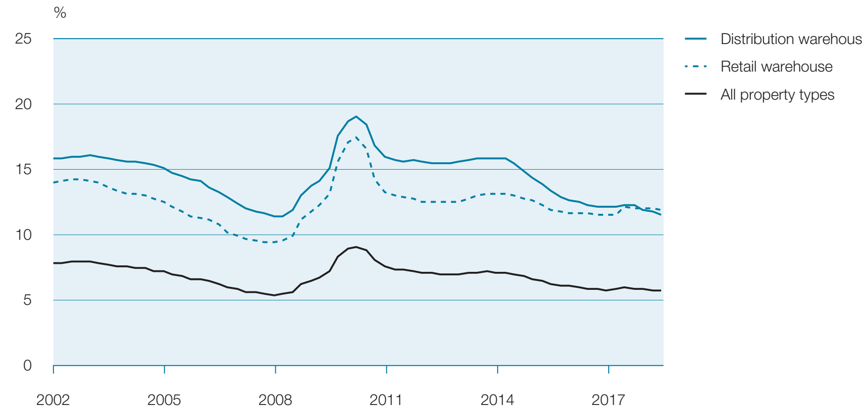



**Fig 10. Equivalent yield comparison**
Source: MSCI




GERALDEVE

" (Industrial) long income remains very popular but is also competitively fought over, meaning yields here too are at record lows."

" 2017 was a stronger year for the Leisure sector… with increased transactional volumes and yield compression back to pre-2007 levels"

## INVESTMENT & FINANCE (CONTINUED)

Supermarkets are entering into a period of recovery with major operators reporting improved trading figures which in turn is

having a positive outcome on real estate investment. The sector offers secure long term income with index linked reviews.

Notable deals in H2 2017 include the Supermarket Income REIT's purchase of the Sainsbury's superstore in Bybrook, Ashford for £80m reflecting a NIY of 4.5%. LaSalle IM also acquired a 74,000 sq ft Sainsbury's superstore from British Land in South Woodford for £36.8m, at c.3.9% NIY. The 4.2 acre site is let on a 25-year lease with index linked reviews.

**Industrial**

The UK industrial sector, including both single-let and multi-let industrial assets, attracted a significant amount of investor interest during 2017. Strong occupational fundamentals, rising rents, low supply and moderate levels of speculative development, together with the ongoing structural change to internet retail have resulted in strong levels of investor demand. This in turn has driven down prime yields to record lows and nationally, average prime yields are now lower than they were in Q1 2007.

Certain markets, particularly in London, where prime yields are around 4%, are significantly sharper than they were in Q1 2007. And there is good reason for this; the structural shift to internet retail has entailed increased demand for logistics facilities close to major urban locations such as London. This is compounded by decreasing supply, as industrial land has been lost for alternative uses. These factors in combination have led to higher rents and have made industrial an attractive investment proposition.

The contraction of yields to levels around 4% is, for many, too keen a price to pay for industrial, especially when the rental growth assumptions to justify such a yield are, in the main, priced-in at day one, and can be over 5% p.a. Investors are having to hunt out pockets of value, either through targeting obsolete stock in good locations or concentrating on specific tenants or tenant sectors.

Long income remains very popular but is also competitively fought over, meaning yields here too are at record lows. As such, mid-income and stable assets yielding 6-7% with asset management potential could be viewed as a more interesting bet throughout this year, but even these opportunities are in short supply and investors are going to have to continue to innovate.

The volume of distribution warehouses transacted during Q4 increased marginally, which is not unusual in the run up to the end of the calendar year as investors sought to allocate capital. The profile of the purchasers was not unusual either, with Tritax Big Box REIT the most active purchaser (alone accounting for £260m of acquisitions), and Oxenwood and LondonMetric also continuing to be acquisitive.

Major distribution warehouse deals during Q4 included Tritax Big Box REIT buying Marks & Spencer and Dunelm NDCs at Prologis Park Sideway for £78.5m reflecting a NIY of 5.1%, South Korean Investors buying Tesco's warehouse in Avonmouth from NFU Mutual for £71.4m and Tritax purchasing Royal Mail's facility at DIRFT in Daventry for £48.8m at a NIY of 5.0%, Wincanton's facility at Harlow Logistics Hub for £44.4m and Unilever's warehouse at Hickling Road in Cannock.

In terms of standard industrial investment activity, we recorded the completion of five portfolios over £50m in Q4 2017. These include the Revelan Portfolio, purchased by Ares Management for £200m, Marble + M7 REIP II purchased by M7 Real Estate for £117m, the Dominvs Portfolio purchased by a private investor for £92.7m at a NIY of 6.5%, Paloma Real Estate Fund 1 purchasing RVB Investments portfolio for £90m at a NIY of 7.5% and CBREGI's purchase of the Wow Portfolio for £52m at a NIY of 4.25%.

**Leisure**
2017 was a strong year for the Leisure sector, following on from the increased transactional volumes in H2 2016. Appetite for indexed-linked, institutional leases in the leisure sector has continued to gain momentum. This was reflected in terms of transaction volumes and yield compression back to pre-2007 levels.

The market was initially led by foreign investment benefiting from the post Brexit exchange rate adjustments, seeking post Brexit bargains. However, 2017 has witnessed the return of UK institutional investors, which saw the largest uplift in transactional activity. Councils have also invested heavily, especially within their own districts. The weight of money has seen yields continue to compress to record levels.

In addition, the underlying operational leisure sector has remained strong with the provincial hotel sector showing continued RevPAR growth.

In merger and acquisition activity, Deltic have emerged the front runners for the acquisition of Revolution Bars after shareholders rejected Stonegate's offer which was believed to be in excess of £100m. Other activity includes Proprium with JV partner C&Co acquisition of Admiral Tavern's 850 public houses from Cerberus for a reported price of £220m. Finally, the Gym Group acquired 18 units from lifestyle fitness for £20.5m.

In terms of investment, yields continue to compress to record levels. In November, the Travelodge Tower Bridge (Minories) was acquired by CCLA at a reported NIY of 3.6%. Additionally, we understand that the Travelodge in Brighton was subject to competitive bidding and is reportedly under offer at a sub 4% yield. Other recent activity has seen the Travelodge Southwark sell for a reported NIY of 3.4%.

**Fig 11. Industrial capital growth by region**
Source: MSCI

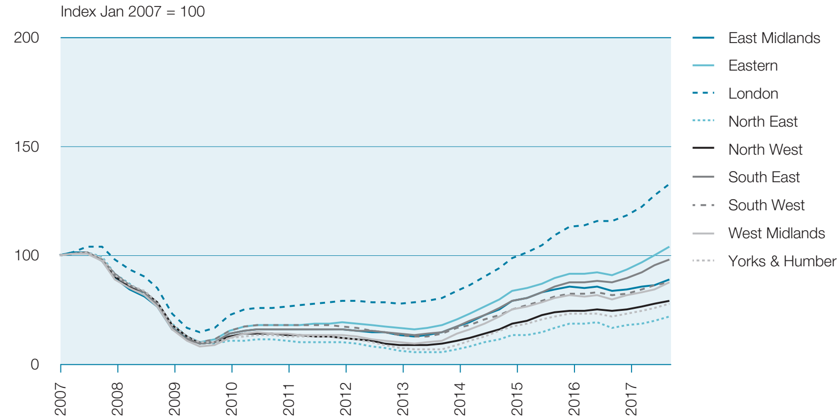



**Fig 12. Total 2017 UK Investment by sector**
Source: Property Data

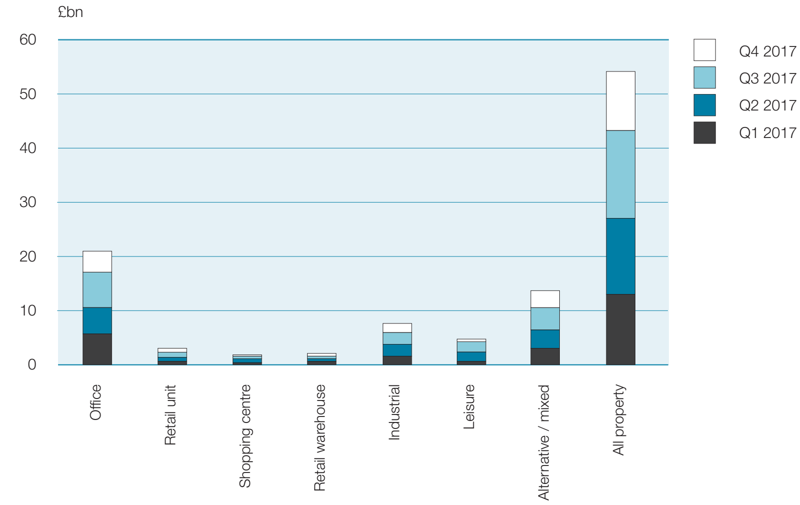



**Table 3. Key leisure investment transactions**
Source: Gerald Eve

| Property | Location | Reported price £ | Reported NIY, % | Tenant |
|---|---|---|---|---|
| Travelodge (Minories) Tower Hill | London | 47,100,000 | 3.61 | Travelodge Hotels Limited |
| Travelodge Southwark | London | c.50,000,000 | 3.35 | Travelodge Hotels Limited |
| Chertsey Travelodge | Chertsey | 7,200,000 | 4.75 | Travelodge Hotels Limited |
| Shardlow Services | Midlands | 8,500,000 | 5.51 | Welcome Break |
| Odeon Derby | Midlands | 12,600,000 | 4.88 | Odeon |
| Pure Gym Wandsworth | London | 4,350,000 | 5.06 | Pure Gym |

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**London (West End)**
Simon Rees Tel. +44 (0)20 7493 3338
srees@geraldeve.com

**London (City)**
Simon Prichard Tel. +44 (0)20 7489 8900
sprichard@geraldeve.com

**Birmingham**
Alan Hampton Tel. +44 (0)121 616 4800
ahampton@geraldeve.com

**Cardiff**
Joseph Funtek Tel. +44 (0)29 2038 8044
jfuntek@geraldeve.com

**Glasgow**
Ken Thurtell Tel. +44 (0)141 221 6397
kthurtell@geraldeve.com

**Leeds**
Philip King Tel. +44 (0)113 244 8413
pking@geraldeve.com

**Manchester**
Callum Robertson Tel. +44 (0)161 259 0480
crobertson@geraldeve.com

**Milton Keynes**
Simon Dye Tel. +44 (0)1908 685950
sdye@geraldeve.com

**West Malling**
Andrew Rudd Tel. +44 (0)1732 229423
arudd@geraldeve.com


Useful web links
Gerald Eve research derives some of its information for the production of Invbrief from the following sources:

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www.propertydata.com
www.propertyweek.com

Contact details
If you require any further details of the facts and figures presented in this publication or would like to discuss them, please contact Alex Vaughan-Jones on +44 (0)20 7333 6375 or avaughan-jones@geraldeve.com


**Investment agency**
Lloyd Davies – offices (London)
Tel. +44 (0)20 7333 6242
ldavies@geraldeve.com

Richard Lines – national
Tel. +44 (0)20 7333 6274
rlines@geraldeve.com

John Rodgers – industrial
Tel. +44 (0)20 3486 3467
jrodgers@geraldeve.com

Charles Wilford – leisure
Tel. +44 (0)20 7333 6804
cwilford@geraldeve.com

Peter Haigh – hotels
Tel. +44 (0)20 7333 6286
phaigh@geraldeve.com

Michael Riordan – alternative investment
Tel. +44 (0)20 7653 6828
mriordan@geraldeve.com

Richard Moir – specialist
Tel. +44 (0)20 7333 6281
rmoir@geraldeve.com

Callum Robertson – northern England
Tel. +44 (0)161 259 0480
crobertson@geraldeve.com


**Gerald Eve research**
We've been keeping our clients up to date with the latest investment trends for 20 years. It is a co-ordinated effort by the research team, each of whom has their own area of expertise:


Robert Fourt
Tel. +44 (0)20 7333 6202
rfourt@geraldeve.com

Alex Vaughan-Jones
Tel. +44 (0)20 7333 6375
avaughan-jones@geraldeve.com

Steve Sharman
Tel. +44 (0)20 7333 6271
ssharman@geraldeve.com

George Matysiak – consultant




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