

Commercial Property Ends Year with Sharp Upturn

- Capital values up 4.6% for 2013
- Investment transactions up 50% in 2013
- Secondary assets to outperform prime in 2014

Commercial property investors have endured some torrid times in recent years, before benefiting from the return to form observed in 2013. The consensus amongst industry observers seems to be this improving outlook will remain constant throughout 2014.

UK commercial property continued to improve through Q4 of 2013. Capital values continued their upward trend amounting to 4.6% growth for the year. This increase in capital values drove transactional activity to its highest level since Q2 2007 with a total of £17.1bn for the quarter. While London accounted for 53% of total market investment, the regional markets have also shown dramatic improvement.

Across the main market sectors Offices recorded the largest capital growth throughout 2013, increasing by 7.7%. Again central London drove this figure however analysts noted outer London/M25 and the rest of the UK continuing to improve.

The industrial sector saw capital growth of 6.3% for the year. One notable factor in this sector has been the positive yield impact from outside the South East.

Retail continues to provide very modest growth with oversupply in challenging locations and continued high street uncertainty dragging the sector. 2013 saw capital growth of just over 2%.

Although prime property has contributed the bulk of capital growth in recent times, the record yield gap to secondary assets has started to reverse. As the secondary market continues to improve, partly owing to the Prime London market becoming untouchable by many, it is believed that this market could well outperform prime from 2014.

2014 could also see a return to sustained rental growth. Strong cash reserves built up by UK businesses, sustained pick up in GDP growth and a significant reduction in risk aversion are providing impetus to the rental market. These factors coupled with very low levels of development outside central London since the financial crisis are leading to significant supply issues.

A nationwide return to rental growth and continued capital growth (not only within the tight South East market) represents a real change across the UK commercial property market. These shifts are providing an excellent backdrop from which to focus on the sector in 2014.

Data Source: Investment Property Databank

Focus on Finance

The Property Week notes that the **new breed of lenders**, many from overseas, are looking to fill the void left by the deleveraging of the major UK banks in recent years.

2014 could even be the last year of lending at record low interest rates with speculation amongst many commentators that a Central Bank interest rate increase could happen in the not-too-distant future. This could help push a number of deals over the line this year.



What they're saying

The Investment Property Forum's Consensus Forecast, based on property investment market forecasts produced by fund managers, property and research consultancies and equity brokers, predicts an average total return figure of 9.3% for 2014, **the highest since the 18.9% return seen in 2006.**

This figure encompasses optimism about not only increasing rental returns but also capital value growth. Evidently, much of the commentary and optimism is centered around London, but 2014 is likely to see more investment findings its way into the regions.

Jones Lang LaSalle highlights the dearth of supply in London as a key reason for rising rents and prices, which according to Jon Neale, head of UK research at JLL

*"will force occupiers into new districts of London – and the regional cities especially Bristol and Manchester could also benefit. Lack of prime product – and falling returns – will push investors to **move up the risk curve, to secondary stock and non-core locations.**"*

Deloitte Real Estate's predictions agree with this, stating that the UK commercial property market is set for strong performance in 2014 as a widening pool of investors become increasingly willing to move further up the risk curve. With the market picking up significant momentum towards the end of 2013, Deloitte expects to see capital values rise sharply over the next six months.

"The catalyst for the large increase in regional investment activity [q4 2013] was the material improvement seen in the UK economic outlook over the second half of the year. It encouraged UK institutions, who have money to invest and have been deterred from Central London by current pricing levels, to buy in to the regional markets in greater numbers and in greater volume than they have since 2010."

Lambert Smith Hampton

Any Questions

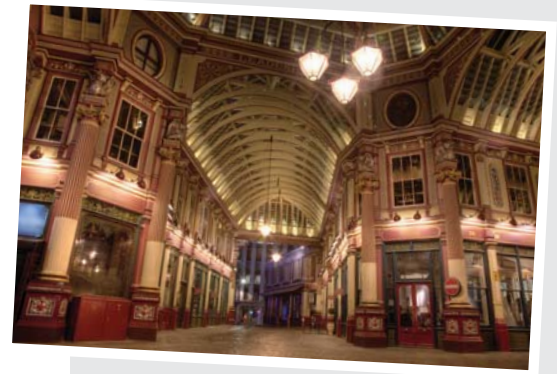
We hope that this has provided some food for thought and if you have any queries about the investment market or property management please:

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Around the Regions

The continued success of the entire UK property market will depend upon sustaining the current demand and the growth in the London market. This year commercial property owners look set for a profitable 2014 on a nationwide basis.

Some of the most lucrative opportunities are likely to consist of 'secondary' properties that are located within regional centres, a sector LRI has been operating in extensively over the last three years. Starting next quarter, we will be focusing on a variety of regional city's commercial property outlooks including Manchester and Bristol.



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