Economics & Real Estate

Q1 2014

STRUTT & PARKER

Research

Property market set for a good year, but economic imbalances remain

Economic Highlights

- The final estimate for UK GDP in Q4 2013 came in at 0.7%, with full year GDP growth of 1.7%. The Office for Budget Responsibility expects an expansion in output of 2.7% in 2014, with levels of business investment expected to pick up.

- CPI grew by 1.6% in the year to March, down from 1.7% growth last month.

- The employment statistics for November 2013-January 2014 compared to the previous three month period showed total employment rising by 105,000 and the unemployment rate falling to 7.2%. However, the number of employees actually fell by 60,000, with the growth in employment driven by a 211,000 rise in the number of self-employed.

- The UK current account balance was recorded at -£22.4bn in Q4 2013, only a marginal improvement on the record deficit of -£22.8bn seen in the previous quarter.

Sector Highlights

1 Industrial – UK Manufacturing PMI continued to suggest growth in March at 55.3 (Markit/CIPS).

2 Construction – the UK Construction PMI for March also reported expansion at 62.5 (Markit/CIPS).

3 Office – the UK Services PMI came in at 57.6 in March (Markit/CIPS).

4 Retail – sales volumes in February increased by 1.7% from January, with annual growth in sales of 3.7%.

5 Residential – UK house prices rose 2.6% in Q1 2014 and increased 9.2% on an annual basis. Greater London saw prices rise 5.3% over the quarter, and they are now 18.2% higher than Q1 2013 (Nationwide HPI).

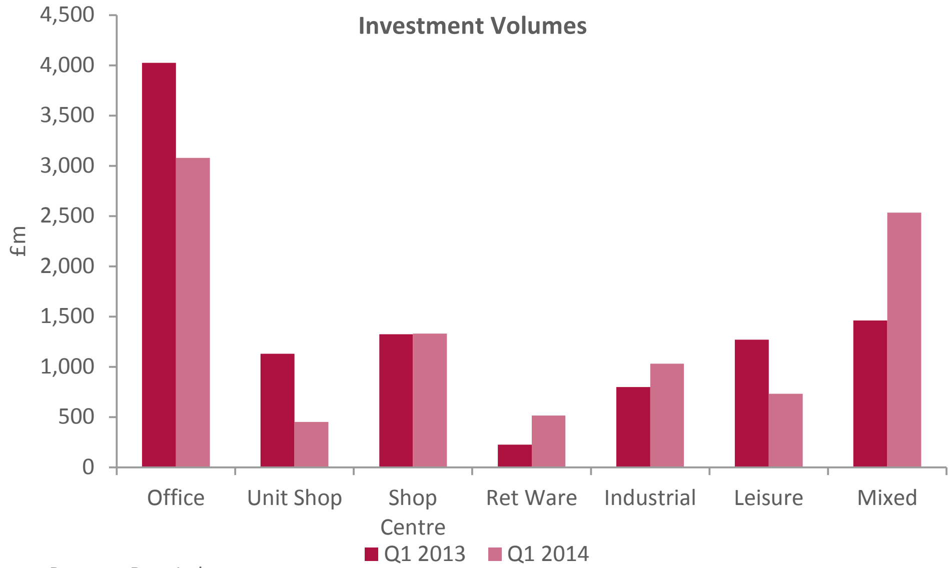
6 Debt – the latest Credit Conditions Survey from the Bank of England reports that the availability of credit to the commercial real estate sector improved strongly in Q1 2014, with a balance between positive and negative responses of +14.6.

The IMF now expects the UK economy to grow 2.9% in 2014, the strongest performance in the G7.

Employment continues to rise; with the primary driver recently being increasing levels of self-employment.

The housing market continues to accelerate throughout much of the UK.

Investment Highlights



Source: Property Data Ltd.

Q1 2014 has seen investment volumes of £9.7bn, a fall of 5% against Q1 2013.

This has been driven by a strong fall in office investment, with the Retail Warehouse, Industrial and Mixed-use segments reporting an increase on the same period last year.

Prime Yields

	Sector	Prime Yield*	Direction (next six months)
Industrial	Distribution Centre	5.75%	Stable
Industrial	Industrial Estate - Greater London	5.50%	Tightening
Industrial	Industrial Estate – National	6.50%	Stable
Office	City	4.50%	Tightening
Office	West End	3.75%	Tightening
Office	South East	5.25%	Stable
Office	Provincial	5.25%	Stable
Retail	High Street - Regional Centre	4.50%	Stable
Retail	Out of Town (open A1)	5.00%	Tightening
Retail	Shopping Centre	5.00%	Stable

*The achievable yield for a freehold, prime investment; fully let and rack-rented to tenant/s of strong financial credibility on lease terms typical of prime property in that segment.

Prime yields hardened in Q1 2014 and the rest of the year is expected to show a similar trend, with a 'wall of money' again seemingly chasing UK property.

We expect the UK to see around 40.5bn of property traded this year. The decrease from 2013's £53.5bn is more a reflection of a lack of stock than on any weakness in demand.

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