

# Prospects for 2014



# A Review of 2013

Dolly Dove and Harry Hawk attend the annual RIAR (Royal Institution of Animal Researchers) New Year's Party and bump into a couple of familiar faces at the bar. Over a pre-dinner drink, the old friends discuss the year that was 2013 for the UK property investment market.

**Dove:** Hawk. Look over there. I don't believe it! I thought those two had packed it in. It's only our long-lost friends, Bull and Bear!

**Hawk:** So it is Dove. Great spot. Let's wander over and say hello. What's the betting they are still as optimistic and depressing as ever? Fingers crossed they have found some middle ground because every conversation they have seems to end in an almighty row!

**Dove:** Hey Bull (tapping him on the shoulders)... Where on earth have you been? It must be at least 5 years since we last saw you. You haven't changed one bit...

**Bull:** Dove...lovely to see you my small, feathered friend. And Hawk too...what a treat! All is great thanks. I feel as optimistic as ever. It's just a shame that Bear here still can't find any reason to be happy.

**Bear:** Thanks for that introduction Bull. I can speak for myself, you know. Hi Dove. Hi Hawk. Great to see you both. You both look really well. Are those tans real?

**Dove:** Of course they are real! We are just back from our travels. A quick trip to Spain to meet up with the guys from St Bride's and then we flew over to their US office to check on how things are going over there.

**Hawk:** Non-stop jet setters us two! I am sure Dove will agree though that it's good to be back in the UK. Plus we didn't want to miss this dinner. It's always a good chance to catch up with friends and share our views about the year just gone and what might lie ahead.

**Bull:** I couldn't agree more. Plus I reckon tonight will be a belter. It's a record turnout apparently and no key-note speaker, meaning far more time for us to get our money's worth at the free bar. The good times are back my friends; the good times are well and truly back!



**Hawk:** You really haven't changed at all have you Bull? You clearly didn't go to the St Bride's Annual Seminar last June, or read their 'Prospects and Challenges' publication that came out shortly after. Even as an optimist myself, both really depressed me. The old boy there really went off on one!

**Bear:** Oh yeah. I read about that in the press too. He reeled off a list of 10 dangers didn't he? They ranged from GDP growth projections, debt, population growth, energy and housing shortages as well as his old favourite - property valuations! Apparently he started off by saying that he was more pessimistic than he had ever been!



## 10 Potential Catastrophes for UK

1	GDP / Public debt is still dangerous
2	Population growth in the wrong cohorts
3	Government spending is out of control
4	Rising personal debt
5	Europe is not out of the woods
6	Infrastructure and energy shortages
7	Housing shortfalls
8	Unemployment and civil unrest
9	Property valuations have questionable accuracy
10	Outstanding property debt is still dangerous

Source: St Bride's Managers

**Bull:** 'Grumpy old git' springs to mind...

**Hawk:** What did he mean by population growth? I thought that population growth was a good thing?

**Bear:** He said that the UK's population is projected to grow by 11 million people by 2035. His problem is that it is 'the wrong sort of growth'... a simultaneous boom in the elderly and newly-borns. He reckons not only will this have massive consequences on our pensions, health and education budgets but there will be proportionately fewer wealth creators in the workplace to pay for it.

### UK Government Spending (£ billions)

	1980	1990	2000	2010	2012	2015 (est)
Pensions	0	0	66	115	127	150
Health	12	29	50	118	121	133
Welfare	24	53	59	110	115	116
Education	12	25	43	88	92	103
Defence	14	23	28	43	46	44
Other	42	71	92	186	187	183
<b>Total</b>	<b>104</b>	<b>201</b>	<b>338</b>	<b>660</b>	<b>688</b>	<b>729</b>

Source: St Bride's Managers

**Hawk:** And Europe? Is he blaming everyone else but us?

**Bear:** Not at all but he did correctly say that the threat of a collapse of the Euro hasn't gone away. It is still on a knife-edge. He was also concerned about the inter and intra-party bitching over the EU in/out referendum and the harm it will do to the UK's global reputation.

**Bull:** Grumpy old git still springs to mind...

**Bear:** That may well be true Bull but he had two words that really resonated with me when describing the recovery of the UK economy – 'fragile' and 'superficial'. I actually agree with him on that, you know.

**Dove:** I am not too sure where I stand. He sounds a bit too gloomy to me but then again St Bride's do appear to have a pretty good grip on things. I was only recently re-reading their Navigator report which was published in early 2013 and spelt out their views for the year. Lo and behold they appear to have been pretty much right with all 10 of their predictions!

**Hawk:** I must have missed that publication. It's nice though to hear of people being brave enough to express their views and opinions in public. Was there anything in it that was controversial? Should I be getting them to do my lottery numbers next week?



**Dove:** Nothing massively controversial no. They thought the UK economy would show signs of a recovery – it has; that London would remain hugely popular with overseas investors – it definitely has; and that the pricing in the regions would look too compelling to be ignored – again it has.

### St Bride's 10 Predictions for 2013

1	The UK economy will start showing signs of recovery ✓
2	International capital will continue pouring into London at record levels ✓
3	The pricing gap between assets in London and the rest of the country will look too compelling to be ignored ✓
4	The mismatch between vendors and buyers aspirations will finally become manageable ✓
5	The residential sector will finally emerge as a significant institutional asset class ✓
6	Investment in property 'alternatives' and social infrastructure will continue to grow ✓
7	More nails will be hammered into the British high street coffin ✓
8	Bank debt will start to reappear ✓
9	Investment volumes will surpass 2012 levels ✓
10	The word 'development' will re-enter the property dictionary ✓

Source: St Bride's Managers, Navigator 2013

**Bull:** Good for them. But have they made their predictions yet for 2014? What happened last year is of course interesting and relevant but what I always want to know is what lies ahead for the coming year. Is 2014 going to be the year when the UK's recovery becomes more than 'fragile and superficial' and when the commercial property market really takes off?



**Hawk:** Food for thought. Talking of which, let's head to our table. Dinner is about to be served apparently and I am absolutely starving. We can then have a good chat about how we all see 2014 panning out.

# UK Economy

Over their starter, Dove, Hawk, Bull and Bear discuss the UK economy and the prospects for its likely continued improvement through 2014 and beyond.

**Dove:** There are just so many things we need to discuss aren't there? I am not sure we'll have enough time to do them all justice. Where shall we start?

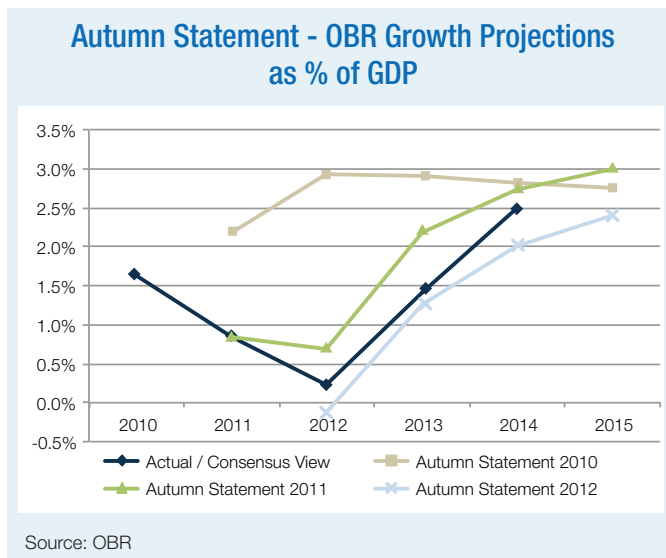
**Bull:** Let's start with the economy. It looks like the austerity plan is working doesn't it? Did you see the latest statistics from the OBR? The UK is now growing faster than any other major economy in the developed world. Well played Mr Osborne.



**Hawk:** I sure did. Growth forecasts for 2013 more than doubled from 0.6% to 1.4% - the highest in-year increase since 1999. They even suggested GDP growth in 2014 will be 2.4% (as opposed to 1.8% as previously forecast). Similarly, the forecasts for growth for the next four years have been increased. All sectors of the economy are growing. The UK unemployment rate has fallen to its lowest level since 2009 at 7.4%. The good times look to be back!

**Bear:** I thought you were better than that Hawk. Believing GDP forecasts! Deary me. They are barely worth the paper they are written on. Take the forecasts in the last three Autumn Statements... they have been, without exception, quite dramatically wrong!

## Prediction 1 - GDP growth will be below forecast



**Dove:** I completely agree. Who would want to be an economic forecaster? Increasing their forecasts for 2014 from 1.8% in April 2013 to 2.4% only six months later is effectively admitting you were wrong by a third! Telling me that there is going to be 2.7% growth in 2018 is just so absurd, it's frightening.



**Bull:** Give the guys a break, Dove. Reliable economic forecasting is almost impossible. However I do genuinely think that the UK economy has turned the corner. Coining Mr Osborne's phrase - 'Britain's moving again'. The recent upswing in both confidence and output is palpable and they are here to stay.

**Hawk:** But what is the main reason behind this marked improvement? I've heard reasons ranging from an improvement in the global economy right through to the positive effect that government policy is having on the debt and housing markets. Throw in the improvements in Europe...it's hardly surprising confidence has been boosted is it?

**Bull:** We see so much less of that chap Robert Peston on the TV don't we? That's a clear sign that things are on the up!

**Dove:** It can't all be that good Bull. Mr Osborne just ordered another £3 billion in spending cuts to fund his raft of giveaways. He also warned that gains would be 'squandered' without years of more austerity. That doesn't sound like good times to me.

**Bear:** Too right Dove. Living standards won't be rising any time soon and we'll be working until we are at least 70 apparently! Plus the structural deficit hasn't been defeated in the slightest. By 2017-18 government debt will still be at nearly 80% of economic output!

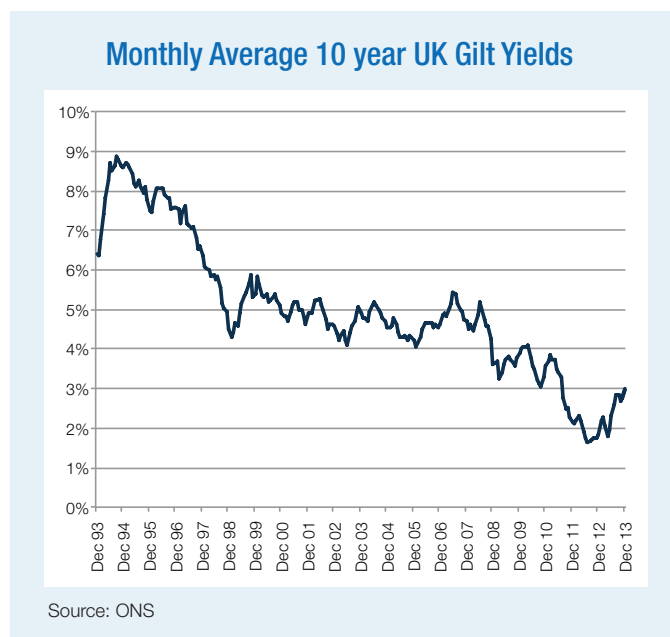
**Dove:** And the risks in the global economy haven't disappeared either. Just look at the recent events in the US. The US government's partial shutdown cost their economy \$24bn (£15bn), shaving 0.6% off economic growth.

**Bear:** Here, here. The world economy is still so very fragile and America plays host to many of its tipping points. You know what they say - when the US sneezes, the world catches a cold!



**Dove:** But this rising optimism is weighing heavily on UK government bonds. After historic lows over the last two years, the 10-year gilt yield has already climbed to 3%. This increase looks dangerous to me, plus of course there will be the inevitable impact of US tapering measures.

### Prediction 2 - UK gilt yields will breach 3.5% before the year-end



**Bull:** I accept that gilt yields are unlikely to fall back to the lows of 2012 but there is very little inflationary pressure at present and the problems in the Eurozone are still very much there. Inflation has just fallen to a four year low of 2.1%. I just can't see the gilt market taking a trouncing in 2014.

**Hawk:** For all the optimism surrounding the economy out there, very few people expect growth to accelerate so fast that inflation becomes a real worry. I agree with Bull. I can't see 10 year bond yields going much higher than where they are now.



**Bull:** With household debt still so high, the Bank of England will be reluctant to act aggressively and raise interest rates any time soon. The economy is simply not strong enough yet. Plus the Monetary Policy Committee pledged not to consider hikes until unemployment falls to 7%, albeit I accept that is getting closer after the most recent fall from 7.6% to 7.4%.

**Dove:** I still disagree. More than a third of all Britons now expect an interest rate rise in 2014. For what it's worth I expect the 10-year gilt yield to breach 3.5% before the end of the year.

**Bear:** I agree with you Dove but let's move on. Do you reckon 2014 will be a tough year for the UK equities market too?



**Dove:** In a word. Yes. The improving economy could well end 'dovish' monetary policy. In my view, cyclically adjusted price earnings ratios make equities look overvalued and most worryingly the majority of investors are confident in the market. The Investors' Confidence Index is at its highest level since 2004. This is normally a good sign to bail out!

### Prediction 3 - The FTSE 100 will see a downwards correction in 2014



**Bull:** What? I completely disagree. My view is that it will break the 7,000 barrier for the first time.

**Dove:** Sorry... but the smart money is apparently already starting to pull out. And more money will inevitably leave the market as the US starts to rein in its quantitative easing policy. I genuinely think it is more likely than not that there will be a significant correction this year.

**Bull:** Whatever. Let's move on from the economy. We're all entitled to our own opinions. So what about politics? 2014 could be a monumental year for the UK.

# Politics, Sport and Property

Over their main course the animal researchers discuss their predictions for 2014 in the murky world of politics and sport before moving onto the UK commercial property market.

**Bear:** I was intrigued by your suggestion Bull that 2014 could be a monumental year for the UK in terms of politics. Why's that?

**Bull:** Because we might lose our friends from north of the border!

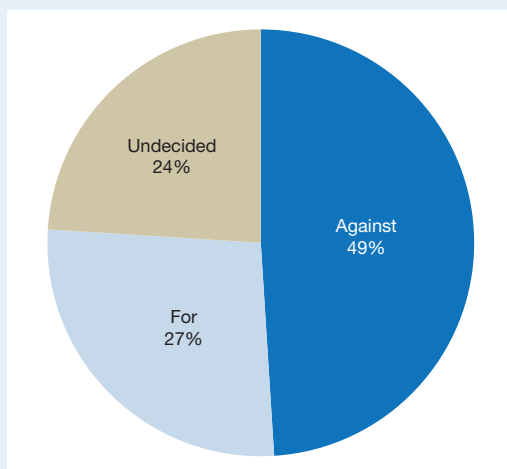
**Bear:** Oh yeah, the Referendum on 18th September.



**Bull:** I just simply can't see them leaving. The latest opinion poll by TNS BMRB showed greater support for Scotland's continued place in the UK. I do accept though that a lot of Scots have yet to make up their minds which way they will vote. They still want more detail, particularly on the future of the economy and jobs.

## Prediction 4 - Scotland will vote to remain as part of the UK

### Scottish Independence Opinion Poll



Source: TNS BMRB, November 2013

**Dove:** I think the recent Independence White Paper – Scotland's Future - will help with that. This provided some clarity. Their preferred option is a sterling currency union with the rest of the UK, with interest rates still set by the Bank of England. They would apportion national debt by reference to historic contributions or population and they remain confident that they could negotiate EU membership within the required timetable.

**Hawk:** Utter rubbish, Dove. There was no substantive detail whatsoever and the reality is that many of the proposals would have to be subject to negotiation between the Scottish and UK Governments, as well as the EU. All the paper has done is to demonstrate just how much still needs to be thought through.

**Bull:** I agree. They would be seriously gambling in my opinion. For example, failure by them to negotiate a smooth transition into the EU would have significant implications on their currency, borders and ultimately investor confidence. Come on then. A show of hands. Will they vote to stay in or vote to leave?

**Hawk:** 3 to 1...that they'll stay...I rest my case.

**Bear:** I actually reckon the Commonwealth Games could be crucial. If the Scots put on a great show in Glasgow and a few of their athletes also do well, patriotism could rocket just in time. And if Andy Murray comes up trumps again at Wimbledon...it could get really interesting!

**Dove:** Well their rugby team won't help things will they! They'll again be fighting for the wooden spoon with Italy in the Six Nations come February/March.



**Bull:** Wales to win the Six Nations. They can't beat the Southern Hemisphere teams for toffee but they are still a decent outfit and I reckon will win it, with a Grand Slam to boot. That would take them to twelve, alongside the old enemy England.

## Prediction 5 - Wales will win the Grand Slam to go level with England

### Five / Six Nations Rugby

Nation	Grand Slams to date
England	12
Wales	11
France	9
Scotland	3
Ireland	2
Italy	0

**Bear:** I can't see any Grand Slams this year. All the teams are capable of beating each other on their day. Bar Italy of course!

**Dove:** I agree. The same story applies with the football World Cup. That's going to be as open a tournament as I can ever recall.

**Hawk:** Brazil for me - to beat the Germans in the final.

**Bull:** Hopefully on penalties! That would be fun to watch! The more interesting prediction has to be whether England will get out of their group. Uruguay, Italy and Costa Rica are all tough opponents, especially with a trip up the Amazon into the jungle for their first game!

### Prediction 6 - England won't make it out of the group stage at the World Cup

#### Predicted Group D Results

Nation	Predicted Points
Uruguay	7
Italy	5
England	4
Costa Rica	0

Source: St Bride's Managers

**Dove:** Early exit I reckon. Did you not see the most recent friendlies against Chile and Germany at Wembley? Yawn, yawn. Dire, dire, dire.



**Hawk:** I can't disagree as much as I'd love to. 48 years of hurt! Add another 4 onto that come the summer I reckon. We've had our time in the sun and failed to make the most of it. We had a supposed golden generation of players at their peak and have failed to achieve with them.

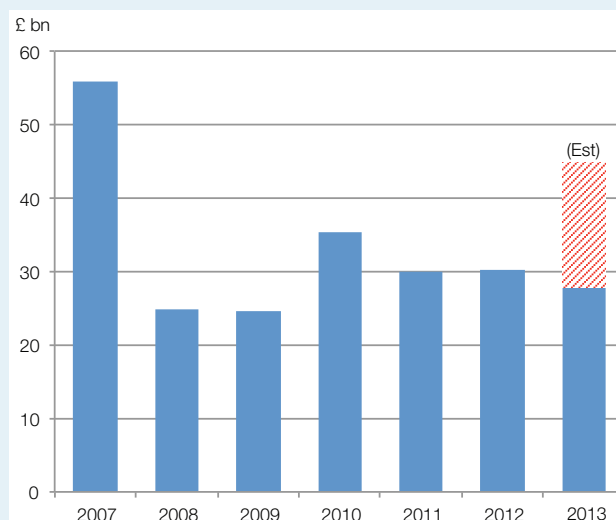
**Bear:** Right. That's enough politics and sports predictions for me. Let's turn our attention to our bread and butter...the UK commercial property market.

**Dove:** So where shall we start? Investment volume predictions for 2014?

**Bull:** Investment in both retail and industrial assets in 2013 has already topped 2012 levels. According to Real Capital Analytics, 2013 transactions volumes could well have reached £45bn! In my opinion 2014 will better 2013 and will comfortably be the best year since 2007 in terms of volume.

### Prediction 7 - Investment volumes will exceed 2013 levels

#### UK Investment Volumes



Source: LSH / Real Capital Analytics

**Dove:** Even if it does surpass 2013, it will still be miles behind where it got to in 2007. That year totalled £56bn. That said, I find it hard to disagree with you Bull although I am concerned by the continued dominance of London.

**Bear:** I agree. Investment in London represents over half of all investment in the UK at the moment. I am just not at all convinced that this can continue, particularly given where yields have compressed to.



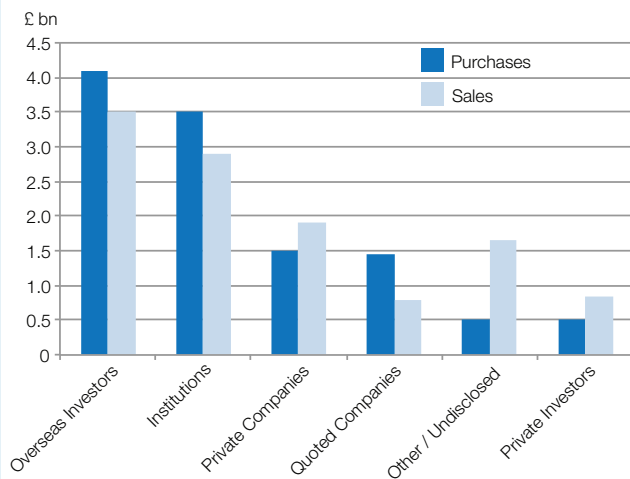
**Hawk:** Super-prime yields may well already seem aggressive at between 3% and 4% depending on sector and location. However the significant weight of both domestic and international capital, coupled with a limited supply of assets, will keep downward pressure on yields in London through 2014 in my opinion.

**Bull:** Bang on Hawk. International capital will continue pouring into London in 2014. Have you not seen how dominant overseas investors have been over the last 18 to 24 months? I have seen nothing, absolutely nothing, to suggest that this trend is going to stop any time soon!

**Hawk:** I agree Bull. Overseas investors have accounted for 45% of all purchases since 2012. In Quarter 3, 2013 alone they purchased over £4bn of UK property. This clearly demonstrates that London remains an attractive investment proposition for them. This won't change in 2014.

## Prediction 8 - Overseas investors will remain the main driver of the UK market

### Purchases and Sales by Investor Type (Q3 2013)



Source: Lambert Smith Hampton

**Bear:** So where are all these overseas investors coming from?

**Hawk:** The biggest sources of investment of late have been the Far East, followed by Germany and North America, where the private equity houses are becoming more active in direct property. The noises coming out of China are staggering too. There are so many Chinese investors who will be looking to dip their toes in the London market in 2014. Chinese investors piled over £1bn into London in the first 9 months of 2013 alone. The Lloyd's building, Royal Docks, One Nine Elms. The list goes on.

**Bull:** You are so right. London will again be awash with overseas investors this year. It's no wonder that domestic investors have started to relook at the regional markets.

**Dove:** I thought the regional markets were off the menu all together and fraught with danger? Is that now not the case?



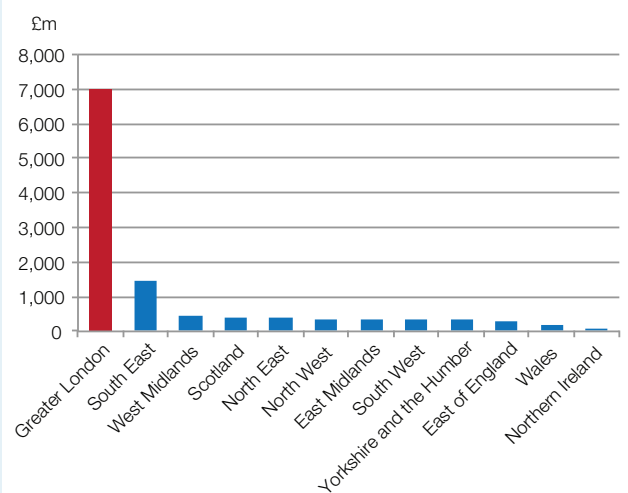
**Bull:** Let's be clear Dove. London remains the market of choice. However there has been a change in investor attitude towards the regional markets, particularly over the last six months of 2013.

**Bear:** Like what?

**Bull:** Well, investment levels in regional property have already outstripped 2012 and the Quarter 3 regional investment total of £3.7bn was the highest since Q1 2011. For example, over £1bn was invested in south east offices (including business parks) in Quarter 3 2013. This is the first time the market has breached this threshold since the end of the recession.

## Prediction 9 - The regions will keep gaining in popularity

### Quarterly Regional Investment Volumes (Q3 2013)



Source: LSH Research, Property Data, CoStar Group

**Bear:** This move has only come about as investors have either been priced out of, or see little value in London. They have needed to deploy their money and as a last resort they have again plumped for the UK regions! Amazing really given all the problems they have had over the last 5 years. They all seem to have been forgotten.

**Hawk:** That's not fair Bear. The combination of a more secure economic outlook and especially attractive pricing have made the regional markets look a lot better prospect now than they were even 6 months ago.

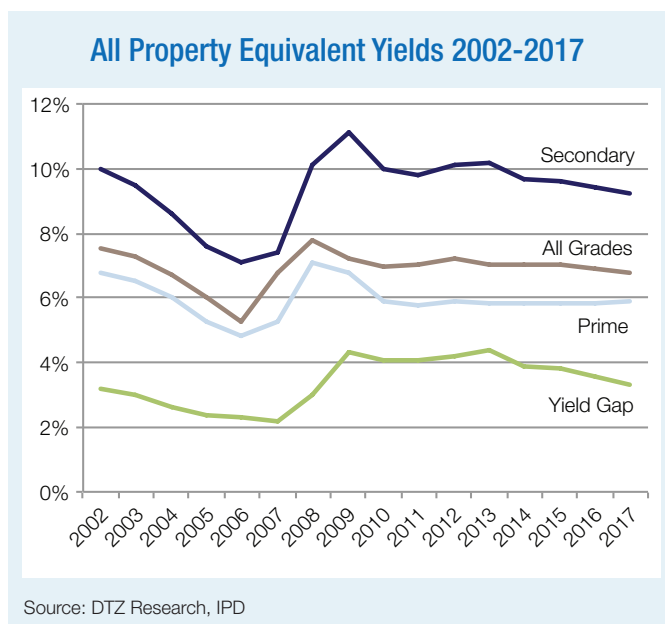


**Dove:** So, if London is going to remain attractive for investors as well as super-competitive, does that mean that regional assets will perform well in 2014? Should investors be piling in?



**Bull:** I'd say so. Improving economic fundamentals and an increasing appetite for risk will inevitably result in a reduction in the yield spread between London and the regions, thereby driving outperformance. Yields in the regions, and especially secondary properties, are expected to continue to compress this year. In fact, the last couple of months have seen the biggest fall for more than 3 years.

### Prediction 10 - Secondary property will outperform in 2014



**Bear:** But who is going to be leading this 'regional charge'? I can't see overseas money heading to Birmingham, Manchester or Leeds, for example?

**Bull:** It already has Bear, keep up! Union Investment has just bought One Snowhill in Birmingham for around £125m at a yield of 6.25%.

**Bear:** That's an exception though, Bull. That building is arguably one of the best office buildings outside London with decent tenants like Barclays and KPMG. Plus they got the chance to invest a big chunk of capital in one transaction. Overseas investors are not going to be targeting regional properties that are below £10 million – in other words the majority of the regional market!

**Bull:** I agree with that Bear. LSH's recent research shows that UK investors tend to look at smaller lot sizes more often than the overseas investors. Going outside the M25 is still a massive hurdle for the overseas guys. This won't change in 2014!



**Bear:** I am still not convinced by the regions I am afraid. When I attended the St Bride's seminar back in June they were really cautious about them. They recognised that higher yields are available but with these higher yields comes plenty of risk.

'Tread carefully' was the phrase I recall them using.

**Dove:** I agree with them too. Take the regional High Street as an example. For all the embryonic signs of economic recovery, the outlook for the High Street has never been bleaker.



**Bear:** It's really worrying. The number of boarded-up retail premises currently stands at 14% and, if we're not careful, the only shops left on the High Street will soon be those offering cheap food and drink or second-hand clothes. The number of charity shops in Britain has grown by 30% in the last five years alone!

**Dove:** And Retail Futures forecast that the total number of UK stores will fall by a further 22% by 2018 – another 220,000 stores. Why on earth would investors consider the retail sector in the regions, irrespective of how high the initial yields are?

### Prediction 11 - The High Street will see no respite despite Government intervention



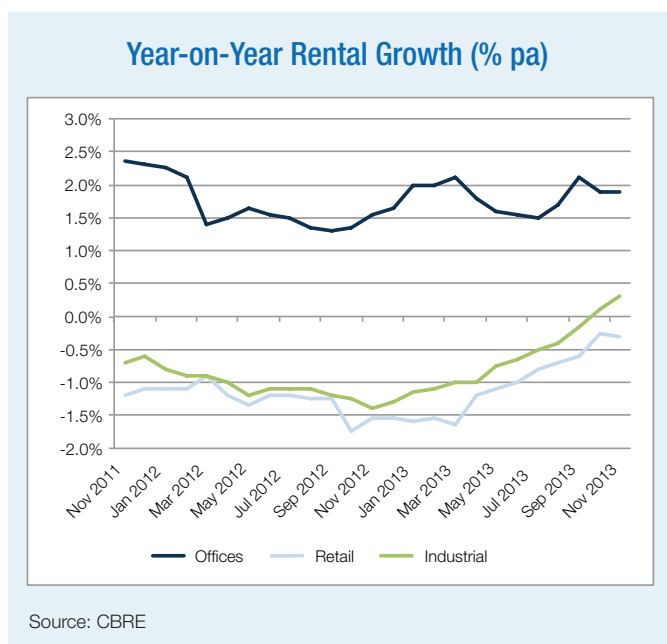
**Bull:** The High Street is a mess, I'll give you that. The Government's recent gesture to give every retail unit with a rateable value of up to £50,000 a discount of £1,000 is only that... a token gesture. I like their idea of people getting a business rate relief of 50% for re-opening vacant shops though. This should partially help but I agree with Bear, 2014 still looks bleak for the High Street.

**Dove:** So what about the occupational markets? Will 2014 be the year of the return of rental growth? I can't see it myself.

**Bear:** Nor can I Dove! Vacancy rates are still way too high across most of the country in most of the sectors. Rental growth has been so negligible over the last few years and despite an expectation that we will see some decent economic growth this year, I am still far from convinced that this will translate into a significant up-turn in demand from tenants.

**Dove:** Too right Bear. Take the office market for example. The average vacancy rate across London currently stands at about 7%. This is about the recognised required level for rental growth to start. In the regional markets, the average vacancy rate is about 12%. This is still way too high to even think about seeing rental growth. Obviously this doesn't bode well for the general performance of regional office properties.

### Prediction 12 - Rental growth will remain elusive in 2014



**Bull:** I am happy to accept that we may still be some way from seeing any meaningful rental growth in the regions, but I have to disagree with you when it comes to London. The greater level of economic optimism has already fed through into higher levels of take-up. The upshot of this is that, especially with recent years delivering low volumes of new space, availability has started to fall. This dynamic is bound to put upward pressure on rents during the year.

**Hawk:** Absolutely Bull. Take the West End for example. Given the combination of declining construction, strengthening occupier demand plus the removal of stock for residential conversion, it is no wonder that the West End is regarded as being well positioned for rental growth in 2014.

**Bear:** What? Off current rents in excess of £120 and £130 psf? Nonsense.

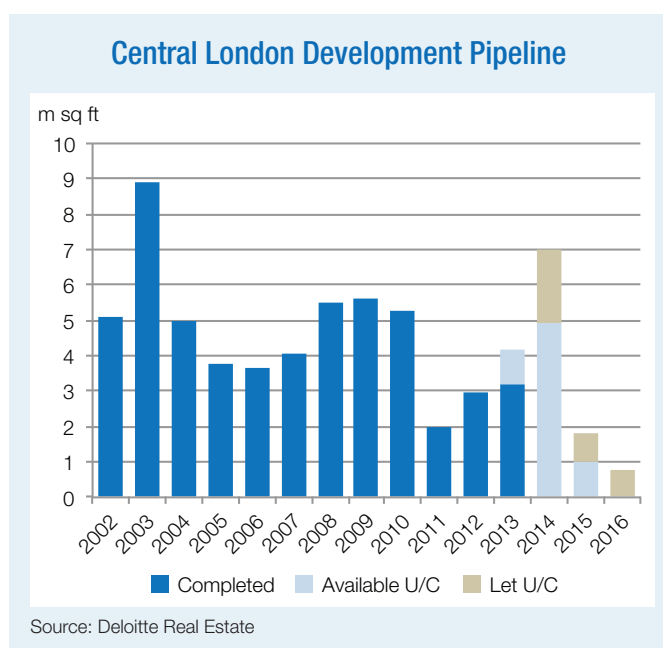
**Dove:** I agree with you Bear.



**Bull:** Well, it is clear that lots of people don't... and they are showing it in their appetite for development. The latest Deloitte Crane Survey showed that development in the Central London office market has reached the highest point in the City for over 5 years. I reckon we will see more cranes in the sky than we have done for many a year in 2014.

**Hawk:** Spot on Bull. Upward pressure on rents, continued appetite from investors for product and forecasts promising a further improvement in the economy. This is music to developers' ears. It is bound to entice them to start more schemes. I also think we might even see some speculative development in 2014, and not just in London.

### Prediction 13 - Developers will be enticed to begin new speculative schemes



**Bear:** Dream on Hawk. Okay, there has been very little built over the last 5 years but if you think there is going to be speculative development out in the regions you need to hold back on the wine! Refurbishments may be... but spec development? Not a chance. Whether they admit it or not, the banks are not there yet for lending for development and if they are, it's only for pre-lets to strong tenants.

**Hawk:** Lenders are now focusing on the secondary market because of overcrowding in the prime segment. There is a general willingness to take on more risk including development finance. Interest rate margins are coming down whilst loan-to-value ratios are increasing.



**Bull:** The banks are also making more noises about lending on residential. I don't blame them given the massive housing shortfall and expected house price increases. Apparently the OBR predicts that residential property values will rise by 27% between 2014 and 2018 across the UK.

**Hawk:** Yes, and London's house prices soared 12% across the year to last October. The average London house price is now £437,000. Talk about a market in total over-drive.



**Dove:** More like a full-blown bubble! It's been commendable what the Government has been trying to do to stimulate mortgage lending but because they have not bolstered the supply of houses they have inadvertently caused a massive bubble.

**Bear:** It's really worrying. Values have raced so far ahead of earnings. Highly leveraged homeowners will be really exposed to any sudden shock of rising interest rates. 2014 could be a very difficult year for some home-owners if interest rates rise.

**Hawk:** You have missed the point Bear. Whilst London house prices have risen almost twice as fast as the UK average, in many regions house prices are still below their 2008 peaks. The market fundamentals are getting stronger - higher demand, lower supply. But talk of a bubble is very premature.

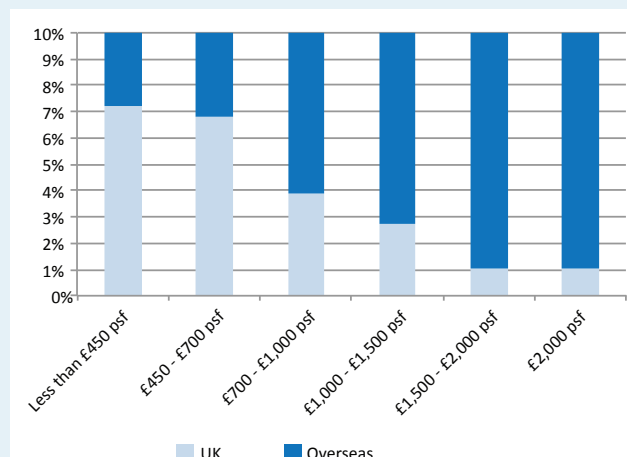


**Bear:** Yes, but I am not convinced that foreign investors who have bought up swathes of newly built resi properties in Central London and driven up prices are going to be hanging around in 2014.

**Dove:** I agree on that. Particularly given Mr Osborne's plans to introduce a capital gains tax on non-resident foreigners selling UK property, starting in 2015. This tax is bound to take some gloss off overseas speculators' future profit and cause house price growth in London to slow.

#### Prediction 14 - Overseas demand for prime London residential will wane by the end of 2014

##### New build sales in Prime London



Source: Savills

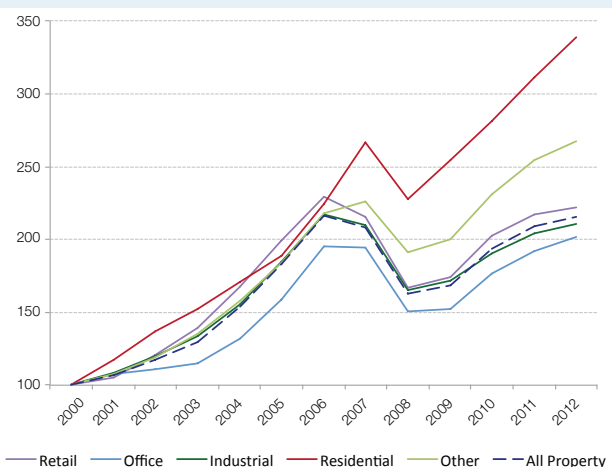
**Dove:** Whether we are in a bubble or not, all this means is that the prospects of home ownership are slipping further and further away from more and more of us. Years of renting lie ahead.

**Hawk:** That is the reality Bear, I am afraid. So it is hardly surprising that institutional investors have significantly increased their interest in the sector over the last 12 months. For example I have it on good authority that St Bride's have backed a regional house builder within their Yorkshire fund. This shift towards residential will continue at pace in 2014... no question.

**Bull:** It's hardly surprising though is it given the relative outperformance offered by the sector? Residential has averaged a total return of 9.3% pa over the last 10 years.

#### Prediction 15 - 2014 will see further institutional monies heading into the residential sector

##### UK Property Total Return by Sector 2000 - 2012



Source: IPD

**Hawk:** Yes, but here's the big (and final) question. Do we agree with the IPF Consensus Total Return Forecast of 9.3% for this year?

**Bear / Dove (in unison):** No way, José. That's far too aggressive.

**Bull:** So what do the chaps at St Bride's say?

Total Return Forecasts 2014			
IPF Maximum	IPF Minimum	IPF Consensus	<b>St Bride's</b>
14.3%	5.8%	9.3%	<b>7.00%</b>

**Whatever the outcome though, we trust that 2014 will be a happy, healthy and prosperous year for all our Dove, Hawk, Bull and Bear readers.**

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