

# Prospects for 2015



January 2015

# A Review of 2014

Bull and Bear meet up to discuss the year that was 2014 for the UK commercial property market and to see how accurate their predictions were.



**Bear:** Happy New Year Bull. I simply can't believe we are here again. When we met up with Dove and Hawk this time last year it was a pleasant change, but I certainly didn't envisage we would be chewing the fat over the prospects for 2015 too. I have been really enjoying my retirement.

**Bull:** You're not wrong Bear. Look at the size of you! I would like to think we are back through popular demand though. Where are Dove and Hawk anyway?

**Bear:** You know what birds do during the winter. They've flown south and they aren't in any rush to return. I think they are mixing their time between Spain, Australia and the US – sponging off the St Bride's teams no doubt!

**Bull:** I can't blame them but the UK is in great shape. I know the US is the brightest star in the sky at present and Spain is returning to favour, but I think 2015 could be a really good year for the UK.

**Bear:** You said the same thing last year Bull, harping on that the good times were well and truly back. If you carry on re-hashing 2014's Prospects publication, even fewer people are going to carry on reading this than normal!

**Bull:** I wasn't wrong though was I? Have you seen what property total returns were for the year? Just short of 20%! For most of the year Osborne was absolutely right when he was proclaiming that the UK was the fastest growing G7 economy.

**Bear:** I think the steam is coming out of the economy. 2015 won't be anyway near as good. The UK's prospects just can't be separated from those of the international markets and Europe is not looking too clever is it?

**Bull:** Come on! UK GDP increased by 0.5% in the final three months of 2014. Yes that was weaker than the previous three months but it was still stronger than expected. The UK economy grew by 2.6% in 2014 – its best performance since 2007.

**Bear:** That wasn't difficult was it? Whilst I accept that 2.6% is okay, it's still well below the 3% forecast. St Bride's got that prediction right.

**Bull:** You are not going to tell me that they got all their predictions for 2014 right are you? I know they did for 2013 but they can't do that again. No one is that lucky!

**Bear:** No they didn't but they did pretty well - 12 out of 15, with one still to be determined by IPD. They did though get a couple of big ones wrong – like they thought Wales would win the Grand Slam!

## Last January's Predictions for 2014

1	GDP growth will be below forecast ✓
2	UK gilt yields will breach 3.5% before the year-end ✗
3	The FTSE 100 will see a downwards correction ✓
4	Scotland will vote to remain as part of the UK ✓
5	Wales will win the Grand Slam ✗
6	England won't make it out of the group stage at the World Cup ✓
7	Investment volumes will exceed 2013 ✓
8	Overseas investors will remain the main driver of the UK property market ✓
9	The regions will keep gaining in popularity ✓
10	Secondary property will outperform in 2014 ?*
11	The High Street will see no respite despite Government intervention ✓
12	Rental Growth will remain elusive ✓
13	Developers will be enticed to begin new speculative schemes ✓
14	Overseas demand for prime London residential will wane by the end of 2014 ✓
15	2014 will see further institutional monies heading into the residential sector ✓
16	Property total returns will be 7.0% ✗

Source: St Bride's Managers

\* Still to be announced by IPD

**Bull:** It was never going to happen. Winning at Twickenham and in Dublin are massive asks so the chances of a Grand Slam for Wales was always going to be slim. What else did they get wrong?



**Bear:** That UK gilt yields would breach 3.5% before the end of the year and that property total returns would be 7.0%.

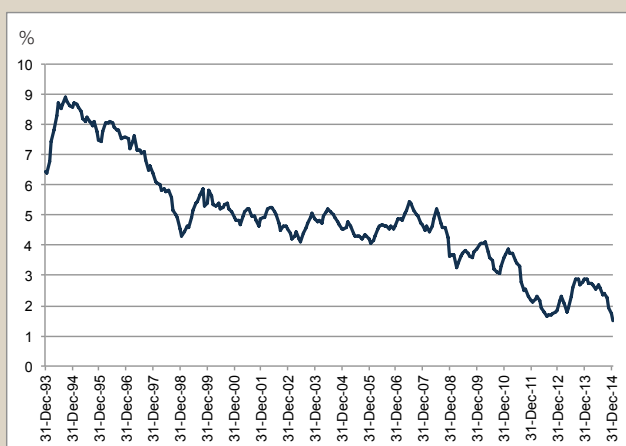
**Bull:** Wow! They are two really big ones to get wrong. That's a bit embarrassing! And they weren't even close!

**Bear:** No... but I do remember the heated debate we had on both topics last year. In fact do you remember what you said?

**Bull:** I can't say I can but I am sure I sounded very intelligent.

**Bear:** You said that there was no way that gilt yields could fall back to the lows of 2012. Oops. That's just what they have done.

### Monthly Average 10 year UK Gilt Yields



Source: Bloomberg

**Bull:** Hands up! Guilty as charged. But in my defence there was a genuine feeling that the Bank of England would be the first major central bank to raise interest rates. Not to mention too that the Fed was to carry out its tapering measures. The ingredients were all there. In fact now you come to mention it, I can see why St Bride's made the prediction they did.

**Bear:** So what happened?

**Bull:** Stacks! For starters commodity prices fell, geopolitical crises unfolded, inflation in the UK slowed and Europe's growth stalled. None of these was really expected.



**Bear:** Like you with their bond yield prediction, I've also got a degree of sympathy for St Bride's when it comes to their 2014 total return forecast.

**Bull:** I agree Bear. As you know I am more of a pint half full man and I was up and around the top end of the forecasts. The IPF consensus was only 9.3% so it's fair to say that 2014's stellar performance took most of us by surprise.

### Last Year's Total Return Forecasts for 2014

IPF Maximum	14.3%
IPF Consensus	9.3%
St Bride's Managers	7.0%
IPD Minimum	5.8%
Actual	19.3%

Source: IPF / IPD

**Bear:** I am more of a pint half empty man and I was down and around the bottom end. Shows what I know then...

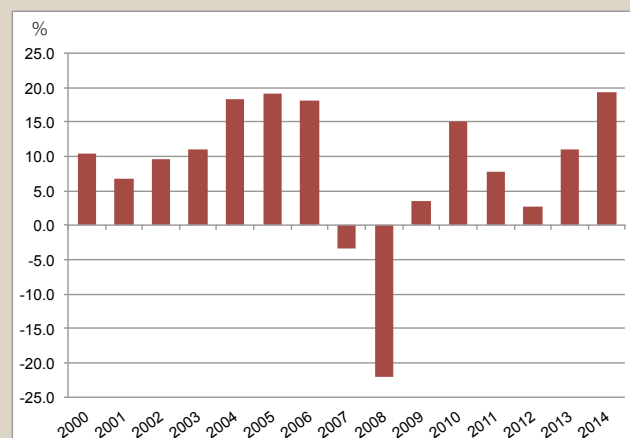
**Bull:** Or don't know more like!

**Bear:** Well I am determined to make amends with my predictions for 2015. I have a pretty good feel for how I see 2015 playing out and it won't surprise you that I don't see 2015 being quite as buoyant.

**Bull:** That's no surprise at all Bear. You are nothing if not predictable. Let's grab a coffee and one of those discounted mince pies and compare notes.



### All Property Annual Total Returns 2000 - 2014



Source: IPD

# UK Economy & Politics

Bull and Bear discuss the forthcoming General Election and the prospects for the UK economy.

**Bear:** So then Bull. How are we going to come up with our predictions for 2015?



**Bull:** Easy. Let's just follow last year's template. We covered four general themes with Dove and Hawk – the economy, politics, sport and of course property. With the General Election now only about 100 days away, shall we start with politics? It's a sure fire way to lose the readers but there is no question that the election is going to set the tone for most things this year.

## Prediction 1 - The General Election will take place on 7th May 2015

### Latest General Election Polls

	Lord Ashcroft (9-11 Jan 2015)	Populus (9-11 Jan 2015)	YouGov (8-9 Jan 2015)
Conservatives	34%	32%	32%
Green	8%	4%	6%
Labour	28%	37%	32%
Liberal Democrats	8%	10%	7%
UKIP	16%	13%	18%
Other	6%	4%	5%

**Bear:** The only prediction we can make with any authority regarding the General Election is that it will take place on Thursday 7th May.

**Bull:** Brilliant prediction! I can't think of an election that has been harder to gauge. It has all the makings of a debacle if you ask me.

**Bear:** If we get away with a debacle then we've probably done okay. The new Government, in whatever shape it forms, is almost certainly going to be constrained when it comes to their legislative programme. This is bound to cast a long shadow over the business environment.

**Bull:** At last we disagree Bear. Why should the UK suffer? I accept that the UK is still running an historically high deficit but overseas investors still absolutely love the UK. That's not going to change any time soon!

**Bear:** Confidence in the Government to tackle problems such as the deficit could easily evaporate if they don't have a clue what their other hand is doing. Plus of course there is the small matter of the UK's membership of the EU. If the Conservatives win then they will have to fulfil their promise of a referendum by the end of 2017. Did you not see KPMG's recent report on this?

**Bull:** I can't say I did.

**Bear:** Apparently two thirds of those questioned by them said that Britain leaving the EU would have a "negative impact on inbound cross-border investment."

**Bull:** As we both agreed, neither of us has a clue how the Great British public is going to vote in May so there doesn't seem any point us worrying about the possible ramifications does there?

**Bear:** Fair enough Bull but what is clear is that it's going to be a rocky next few months. We are still in January and already the upcoming election is making an impact. For example Centrica and SSE's share prices both suffered after Labour outlined plans to force energy companies to pass on wholesale price falls to their customers. I am now really concerned that all the positive economic noises could come to a shuddering halt. Look at the GDP statistics as a starter.

**Bull:** Relax Bear. The UK's economy has hardly come off the boil. Growth in the last quarter of 2014 was broadly in line with the average over the past 18 months.

**Bear:** But it is well short of the 3% pencilled in by the Office for Budget Responsibility only last month. As much as I hate to say it, all the surveys I have seen point to a slowdown. Construction output fell 2% in November and industrial production also flat-lined.



## Prediction 2 - UK GDP Growth will continue at a respectable pace but slower than 2014

### GDP Growth Forecasts 2015-2019

2015	2.4%
2016	2.2%
2017	2.4%
2018	2.3%
2019	2.3%

Source: OBR



**Bull:** But manufacturing output rose 0.7%. The trade deficit also fell to £8.8bn from £9.6bn the previous month. I really can't foresee any problems for the UK economy. Weaker oil prices, low mortgage rates and the prospect of rising real wages will push growth up this year.

With inflation at its lowest level in modern times and pay growth at 1.6%, we should start to feel the benefit in the coming weeks and months. Low inflation is the equivalent of a tax cut, giving us all a post-Christmas pay rise. We should be rejoicing.

**Bear:** So you think 2015 will see stronger GDP growth than 2014?

**Bull:** No. In my opinion 2015 won't quite hit the heights of 2014. But it's not going to tail off if that's what you are worried about.

**Bear:** I hope you are right - but I still think we are in for a slow-down. But the performance of the US will be key.

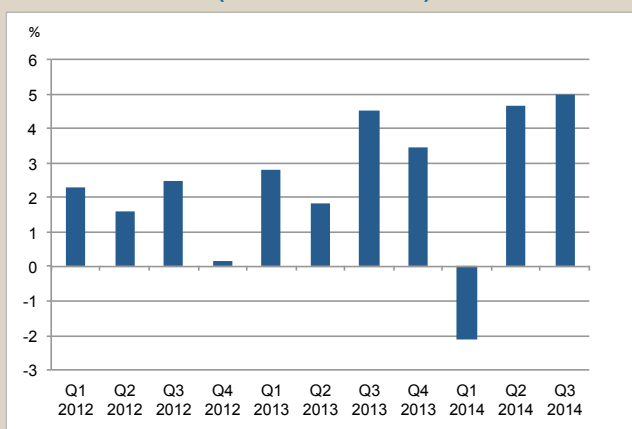
**Bull:** I know, I know. You said it last year - 'when the US sneezes, the world catches a cold'. But what is there to worry about? The US economy is in fantastic shape and that can only be good news can't it?



**Bear:** I accept that the US economy has just posted its strongest growth in 11 years. On the other hand, the global economy still needs the occasional spark plug. Irrespective of what China might say, the US has consolidated its position as the dominant force in the global economy. I'd hate to think what would happen if the tide turned.

### Prediction 3 - The fortunes of the global economy hang on the US star continuing to shine brightly

**Real US GDP Change on Previous Quarter  
(at annual rate %)**



Source: Haver Analytics

**Bull:** I don't follow Bear.

**Bear:** It's a widely held view Bull that a pick-up in global growth is highly dependent on the US's economy continuing to improve. If that doesn't play out then there's not much left for the global economy to fall back on, is there?

**Bull:** Lucky that they are expecting to record growth of 3.1% in 2015 then isn't it?

**Bear:** So are you going to have a stab at predicting UK gilts and equities after your horror show last year?

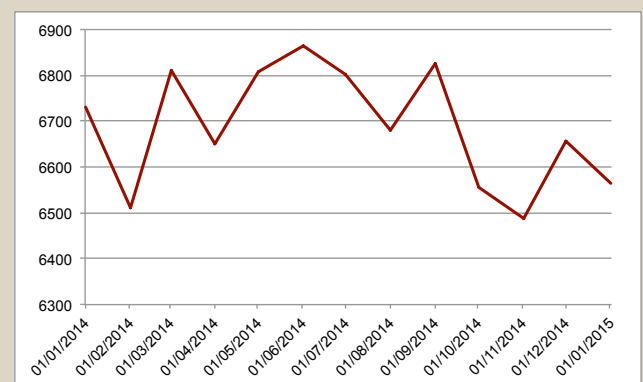
**Bull:** That's a bit harsh. We called the equity market right didn't we? Just about everyone else reckoned that the FTSE 100 would break through the 7,000 barrier for the first time. But where did it end up?

**Bear:** 6566 down from 6731 - exactly in line with St Bride's prediction (after getting to 6905 in September). So are you going to make a prediction or not?

**Bull:** You know me Bear. I am not one to shirk a challenge. UK 10 year gilt yields will stay below 2% given the low inflation climate and the FTSE will claw back its 2014 losses. But I still can't see it breaking through 7000 like some investment banks do, even though it seems to have started the year off strongly.

### Prediction 4 - The FTSE 100 will recover the ground it lost in 2014

**FTSE 100 Performance 2014**



Source: FTSE

**Bear:** It's hard to disagree with you Bull. The FTSE 100 had a year to forget in 2014, suffering its first annual fall since 2011, but like you I can't see that happening again this year.

**Bull:** Shall we move away from talking about the economy and we are bound to return to the topic of the General Election when we get to the property section? How about a quick canter through the sporting calendar for 2015? There's plenty going on.

**Bear:** Sounds good.

# Sport

## Bull and Bear discuss the 2015 sporting calendar.

**Bear:** So then Bull. What does 2015 have in store for us on the sporting front?

**Bull:** The Cricket World Cup in Australia / New Zealand, a home Ashes series and the Rugby World Cup. Plenty to whet the appetite.

**Bear:** The only one I am interested in is the Rugby World Cup.

**Bull:** Why's that Bear?

**Bear:** England's 50 over form is on a par with the England football team so I am not expecting them to get out of their group. Have you seen how good Australia, New Zealand and Sri Lanka are? Given current form I wouldn't be surprised if Scotland, Afghanistan and Bangladesh do a job on England too. Plus it all takes place during the middle of the night and you know how much I like my sleep!

**Bull:** So why aren't you interested in the Ashes? That's always good fun.

**Bear:** Has the Ashes become an annual event all of a sudden? It seems like we are playing the Aussies all the time. It's taken the edge off things for me. The boys down at EG Funds in Sydney, the guys who hooked up with St Bride's last year, are bound to be buoyant about their chances aren't they?

**Bull:** I suspect so. So why are you looking forward to the Rugby World Cup so much? Have you seen how expensive the ticket prices are and that's only if you can get hold of one?

**Bear:** I know. Brutal pricing. You could pay £715 face-value for a ticket for the final and that's even without a free prawn sandwich. I just think it is going to be a really competitive tournament. Plenty of teams in with a decent shout of winning it.

**Bull:** Rubbish. Did you not see how strong New Zealand were during the Autumn internationals? With the monkey off their back about chokers, I can't see past them.

**Bear:** A solid, if not inspiring call there Bull. I quite fancy England to do well. They have the makings of a decent team. They'll have the massive advantage of being able to play in front of their home supporters and this should give them added momentum.



**Bull:** But they are in the Group of Death with Australia and Wales. Both will be huge tests and England have to win their group to have any chance of making meaningful progress into the latter stages. If they win their group they will probably have to face Scotland then Ireland to get to the final. If they come second, the southern hemisphere giants lie in their way.

## Prediction 5 - England will win their Rugby World Cup group but lose to New Zealand in the final

### Predicted Final Group A Standings

1	England
2	Australia
3	Wales
4	Fiji
5	Uruguay

Source: St Bride's Managers

**Bear:** I don't think you can under-estimate home advantage Bull. Did you know that only Wales in 1999 have failed to make the semi-final when hosting the tournament outright? England to win their group and meet New Zealand in the final is my prediction. As for what then happens ...you are probably right. Let's just hope it is a decent game if it costs £715 for a ticket!

**Bull:** Talking of expensive tickets, who did you think will win the Premier League? And don't say Tottenham again. Like every year since I have known you, they haven't got a chance.

**Bear:** As much as it hates me to say it, I can't see past Chelsea this season although they'll have to play better than they did against Bradford in the FA Cup. In fact I can see them doing the double...the Champions League as well as the Premier League.



**Bull:** Nonsense. I can't see anyone beating Real Madrid. Their squad is full of superstars and they no longer have the pressure of 'La Decima' weighing them down.

**Bear:** It would be a great final. Mourinho against his old team. I might even pay £715 for a ticket for that!

**Bull:** Agreed. Shall we turn our attention to our predictions for the UK commercial property market? These big prices remind me of what is currently happening in London for anything with a brick in it.

**Bear:** We should do really. That's what the readers probably want to hear about above all isn't it? Where shall we start?

# The UK Property Market

Bull and Bear discuss their 2015 predictions for the UK commercial property market.

**Bull:** So then Bear. Why are you so concerned about the impact of the General Election on the UK property market?

**Bear:** Simple. Evidence suggests that political instability makes buyers jittery. A slowdown in transaction volumes is a real possibility as we move closer to 7th May.



**Bull:** Rubbish. There are so many factors that influence an investor's decision. Politics is just one of them. Property is not a highly liquid asset like equities which can respond quickly to opinion polls or proposed policies.

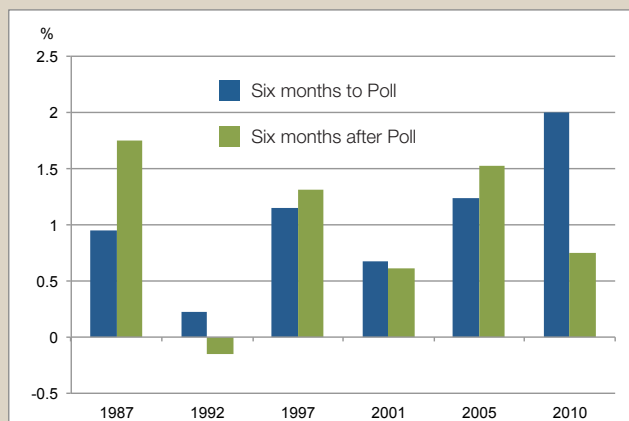
**Bear:** Trust me. Take the referendum in Scotland last September. Occupier activity slowed right down. Similarly the investment market ground to a halt in July, with sales being pulled or deferred until the result was known. The commercial property sector lost a quarter of its trading volume compared to 2013. I can see the same happening again.

**Bull:** But the General Election takes place every 5 or so years. Not once in a generation. Investors are used to them and in my view the sheer weight of money out there will override any concerns. The UK market will remain attractive, irrespective of who is in power.

**Bear:** The data shows I am right Bull. Both Savills and Knight Frank/IPD have recently published research on it. Savills' research shows that there has been a blip in prime yields in the months around an election when a change of government is expected or the outcome is unclear. Prime yields moved out 10 basis points around the polling date in 2010. Knight Frank/IPD research also shows that at least 50% of the last six elections have seen a pre-election slowdown.

**Prediction 6 - The market will experience a pause in the run-up and aftermath of the General Election**

**Average Total Return Growth (Month on Month) before and after General Elections**



Source: IPD / Knight Frank

**Bull:** I can understand your thought process Bear but I remain unconvinced. The amount of capital still looking for a home is frightening.

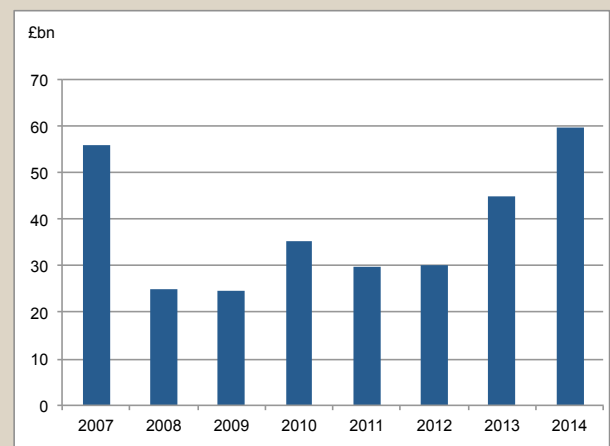
**Bear:** Is it? I thought St Bride's were bonkers when they predicted that investment volumes in 2014 would exceed 2013 levels but they called that right. According to Lambert Smith Hampton, a staggering £59.6bn was invested (2013: £45bn). 2015 won't see as much being invested surely?



**Bull:** I think you'll be surprised, even if the election does cause a pause. Cushman & Wakefield estimate there is already £250bn of funds in the market available for direct investment in London property. Then throw into the mix an improving debt market. Savills reported that there was £35bn more available to borrow than there were market opportunities last year! In other words there's loads of money looking for a home!

**Prediction 7 - Investment volumes will be good but will not match 2014 levels**

**UK Investment Volumes**



Source: Lambert Smith Hampton





**Bear:** Crikey. I knew it was competitive out there but I hadn't quite appreciated the level of pent-up demand. Who is driving it? Is it still the overseas investors?

**Bull:** Interest remains from a wide cross-section of investors but it really depends on the sector and location of the asset. According to DTZ, overseas investors accounted for nearly two thirds of turnover in London last year, with almost half of that coming from North America and Asia Pacific. Taiwanese and Singaporean buyers were the most active from the Far East, although Chinese and Hong Kong investors weren't far behind.

**Bear:** How much did the Chinese invest?

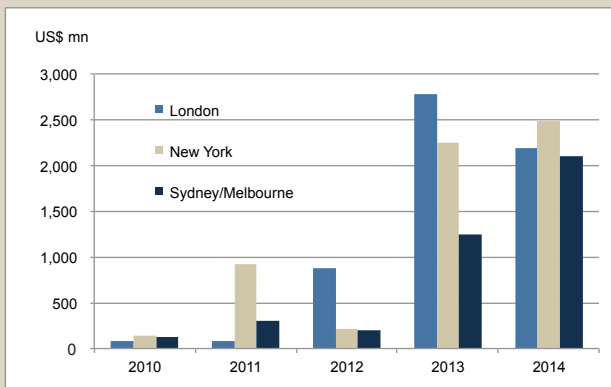
**Bull:** In London alone, about US\$2.25 billion. This is on top of the US\$2.8 billion they invested here in 2013.

**Bear:** All I keep hearing about is how much institutional money is leaving China given the recent relaxation of regulations over there.

**Bull:** I know. The Chinese insurance industry apparently invested an estimated \$15 billion on overseas properties last year. That is almost triple the total of two years ago. The bulk of this investment has been focused on the gateway cities of Australia, the US and the UK.

### Prediction 8 - Chinese investors will accelerate their UK acquisitions in 2015

#### Chinese property investment into foreign cities 2010 - 2014



Source: Knight Frank

**Bear:** This trend is only going to continue Bull. You mark my words. 2015's figure will be over \$20 billion. This is mainly due to China's growing middle class and this is reflected in the growth of their insurance industry. The Chinese appetite for income and diversification of investments outside their domestic market is becoming insatiable.

**Bear:** So what about UK investors? Did they also pile into London? According to the Investment Manager's Association, net-inflows from retail investors into UK property funds totalled £2.6bn in the first eight months of 2014. This is commensurate with the flows seen at the very peak of the boom in 2006, when retail investors poured £3.6bn into real estate funds.

**Bull:** That may be true Bear, but as a whole, UK domestic investors disinvested from London. The most popular investment destination in the world with strong rental growth prospects and they effectively cashed out!

**Bear:** How disappointing... but I can't say I am surprised. I can see why local investors have decided to look elsewhere in the UK.

**Bull:** But it's not just domestic investors who are now investing outside of London, Bear. Selectively, and I do stress selectively, foreign investors are looking at opportunities in cities such as Manchester and Leeds. Don't get me wrong. London will still receive the bulk of capital from overseas investors but the regions will see increasing attention in 2015 too.

### Prediction 9 - Some overseas investors will become increasingly comfortable investing in the UK regions

#### Regional Assets acquired by China's Ginkgo Tree

Fosse Park, Leicester



One Angel Square, Manchester

**Bear:** This all feels a bit like shoppers going to Poundland when they really wanted to shop at Selfridges.

**Bull:** Well have you not seen how successful Poundland has been? They reported a 23.5% rise in annual profits last year and have also begun expanding into Continental Europe.



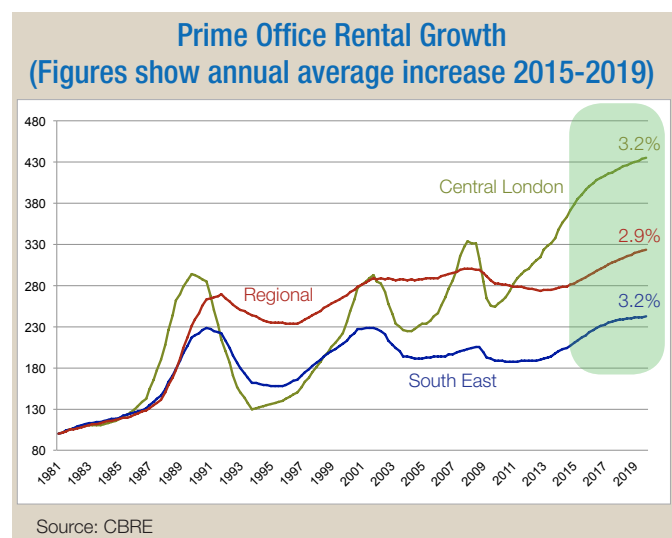


**Bear:** Even so, according to the Local Data Company, Britain's overall High Street vacancy rate is still 13.2%. Anyway, back to London. I don't care if it is cheaper to buy at Poundland. For me London's genuine growth prospects outweigh the higher initial income yields available in the regions. Do you not realise that London's office market generated the fastest rental growth of all the world's largest cities last year? 2015 is going to be a really good year for investors who own London real estate.

**Bull:** For investors maybe but not for London-based tenants. Have you seen how much it now costs to rent space in both the West End and the City?

**Bear:** But not as much as it is going to cost this time next year. The facts speak for themselves. Central London office take-up for 2014 was 15 million sq ft - the highest since 2006 and 20% higher than the long term average. And vacancy rates are well below average. The ingredients are all there for significant rental growth this year. Why would an investor not want to benefit from this?

### Prediction 10 - Rental growth will be strong in London and remain patchy in the regions



**Bull:** Prime rents currently stand at £112.50 psf in the West End and £62.50 psf in the City. Are you really telling me that we could be looking at rents of £140 psf and £75 psf respectively by the end of the year? Remember, I am supposed to be the bullish one Bear!

**Bear:** I know it's hard to believe but yes... and that's what Strutt and Parker are telling people too. And it's not just offices that are expected to see significant rental growth this year. According to Savills, Oxford Street retail rents will hit £1,000 psf from a previous high of £928 psf set last year when The Toy Store took space at West One.

**Bull:** I guess it's no wonder then why London yields compressed over the course of 2014. I recall thinking at the start of the year that it might be a possibility but even I have been taken aback by where prime yields have got to.

**Bear:** But if you are going to see the rental growth in the West End this year like everyone predicts, it's not hard to see why investors remain so keen. With government bonds and the cost of debt both currently so low, the case for property (and London) remains really compelling. That said there's a very different dynamic going on out in the regions. Investors shouldn't be pricing in rental growth there.

**Bull:** Well I think some are... although their main motivation is still the higher income yields that are available.

**Bear:** For me, finding rental growth in the regions will be like finding a needle in a hay stack. The strengthening UK economy just hasn't made it through to the regional office markets yet. To some regional industrial locations maybe but for retail... dream on.



**Bull:** Say what you like Bear but significant improvements were seen in the rate of rental value growth across all UK commercial property last year. Rental value growth for All Property was 0.4% for December 2014, the highest monthly rate recorded for over four years. Rental growth for 2014 was 2.69% and is still improving.

**Bear:** Yeah, yeah! Anyway, if you had a fresh £100m allocation to commercial property (which of course all investors should be looking to have), where would you be looking to deploy your money? I know St Bride's harp on about a third (overseas), a third (London), a third (regions) but imagine you are one of those rare investors that already has a decent exposure to overseas property and you're looking at the UK only.

**Bull:** Wow. A good question. Do you really want me to give away all my secrets? I get paid good money, well get some money, to offer my opinion.

**Bear:** Come on Bull. We need to reward the readers with something for persevering with us.

**Bull:** As a starter I feel very comfortable that the UK economy is sufficiently robust to merit the increased allocation to property. Interest rates will remain low which will obviously help too. Will property offer the same returns as 2014? No. But in comparison with the other major asset classes like equities, I think property will be the best performer. The IPF consensus is 10.8%.

**Bear:** Stop sounding like a politician Bull. That wasn't the question. Where would you invest your £100m?

**Bull:** It depends on your risk and return requirements!

**Bear:** Stop it Bull. Answer the question.

## Prediction 11 - There will be no further yield compression for prime London assets

### London Investment Yields - January 2015

	Yield
Prime Offices: West End	3.75%
Prime Offices: City	4.25%
Prime Retail: Bond Street	2.25%
Prime Retail: Oxford Street	3.00%
Prime Industrial Estates: Greater London	5.25%
Prime Residential: Mayfair	2.00%
Prime Residential: Zone 2	3.50%
Prime Residential: Zones 3-6	4.00%
Prime Student Accommodation	5.50%

Source: CBRE & DTZ

**Bull:** I still like the London story but would I be looking to buy prime offices in Central London right now? Hmmm! The rental growth prospects look compelling but on the other hand competition is going to remain so strong. I know there is still a tasty spread between prime property yields and government bond yields but it just seems too brave a call to assume there will be further yield compression. For second-line London assets maybe, but for prime assets? Probably not, but I would still keep my eyes peeled for mis-priced opportunities.

**Bear:** So you would be 100% regionally focused with your £100m?

**Bull:** I didn't say that! I was talking about offices. I still really like London industrials not least because of the service-based economy and the pressure that has built up from alternative, higher value uses - particularly housing. It's a competitive market don't get me wrong but the fundamentals are right for long-term investment in this sector.



**Bear:** I hear you Bull. I prefer London industrials to London residential even though prices rose by 17.8% last year. That sort of growth simply can't be repeated.

**Bull:** I agree, and whilst I can't see the recent changes to stamp duty having much effect, there is still the question of affordability for Londoners. So I think I'd be focussing my attention a bit further out into the commuter belt where it is more affordable.

**Bear:** Nothing looks affordable if you ask me. So if you are worried about the pricing and competition in London, how do you feel about the increased demand for regional properties? For the first time since Quarter 1 2011, the volume of single asset regional transactions was greater than those for properties located in London. Multiple rounds of best bidding is also not uncommon, you know.

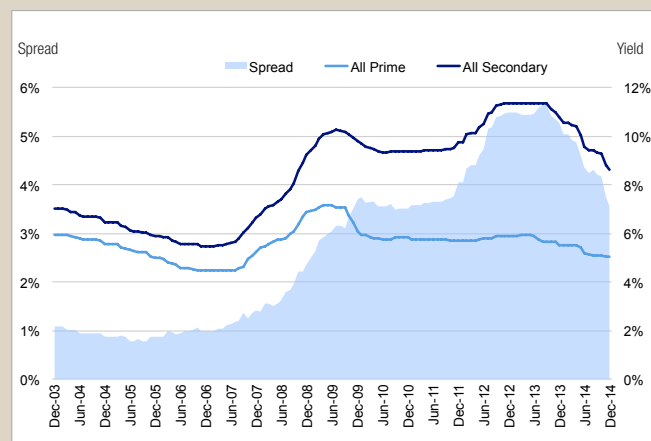
**Bull:** Oh I know. Best bids are depressing aren't they? But I can see why agents use them in the current climate. They are getting multiple offers for prime properties and increasingly for secondary and tertiary assets too. Did you know that the largest shift in yields in 2014 was for secondary properties?



**Bear:** Given that the gap between prime and secondary at the start of 2014 was 350 basis points that's hardly surprising. Have we missed the boat then?

## Prediction 12 - The yield gap between prime and secondary properties will close further in 2015

### UK Prime vs Secondary All Property Yield (excluding Central London)



Source: CBRE

**Bull:** I don't think we have. Despite the clear downwards shift over the last year or so, the spread between prime and secondary yields is still more than a percentage point higher than its long-term average according to CBRE. This gap will close however over the course of the year as investor demand for regional properties persists and the availability of low cost debt increases.

**Bear:** You still haven't answered my question Bull? Where would you put your £100m?



**Bull:** I like the regional city focus strategy that St Bride's Managers are promoting. They revisited their 2011 regional research just before Christmas with their research partner, Ramidus Consulting. Without wanting to ruin a possible future publication, they like the long-term prospects of cities such as Leeds, Bristol and Manchester. I think they call it their "Favoured Five" strategy. They believe there are still some genuine vacuums worth exploring and from what I have heard, it's hard to disagree with them.

**Bear:** So your answer to my question is basically whatever St Bride's tell you? Pathetic.

**Bull:** Absolutely. They think (and who am I to disagree), that 2015's best UK bets will be:-

- London Industrials;
- (Very) selective regional markets, and
- Some of the non-mainstream sectors, including healthcare.

**Bear:** And total returns?

**Bull:** Probably at the lower end of the IPF consensus forecasts. But I would be happy to be proven wrong (again!). They also think property will be the best performing (mainstream) asset class in 2015.

### Total Return Forecasts for 2015

IPF Maximum	IPF Minimum	IPF Consensus	St Bride's Managers
17.70%	6.30%	10.80%	10.00%

Source: IPF / St Bride's Managers

**Bear:** And they are still promoting overseas investment as well?

**Bull:** You said it. St Bride's made 4 investments in the United States last year... and they expect to expand their overseas portfolio even more in 2015.

**Bear:** Which no doubt explains Dove and Hawk's current absence. What's the betting they are still away come the mid-year review?

**Bull:** A silly question to finish with Bear. I'd say slim at best.

**We would be delighted to share our further thoughts on the UK property market with you. In the meantime we trust that 2015 will be a happy, healthy and prosperous year for you.**

### St Bride's Predictions for 2015

1	The General Election will take place on 7th May 2015
2	UK GDP Growth will continue at a respectable pace but slower than 2014
3	The fortunes of the global economy hang on the US star continuing to shine brightly
4	The FTSE 100 will recover the ground it lost in 2014
5	England will win their Rugby World Cup group but lose to New Zealand in the final
6	The market will experience a pause in the run-up and aftermath of the General Election
7	Investment volumes will be good but will not match 2014 levels
8	Chinese investors will accelerate their UK acquisitions in 2015
9	Some overseas investors will become increasingly comfortable investing in the UK regions
10	Rental growth will be strong in London and remain patchy in the regions
11	There will be no further yield compression for prime London assets
12	The yield gap between prime and secondary properties will close further in 2015
13	Property Total Returns will be 10.00% for 2015
14	Property will be the best performing (mainstream) asset class in 2015

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