

UK COMMERCIAL PROPERTY: GOOD CHANCE OF POSTING BEST RETURNS IN 25 YEARS ACCORDING TO M&G REAL ESTATE

- *Industrials and offices to lead the charge powered by improving rents and strong investor interest*

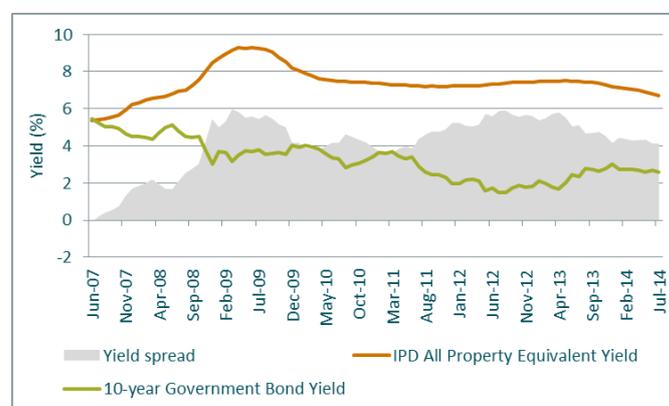
LONDON, 6 October 2014 – The UK commercial property market may achieve returns of over 20% for the year 2014, making it the strongest return the country has seen in the last quarter century, according to the latest research published today by leading global real estate fund manager M&G Real Estate. With liquidity in the market and increased investor confidence, performance for the year is forecast to be exceptional although in the medium term M&G Real Estate’s research anticipates the market reverting to the trend level of between 6% and 8%.

‘The UK Real Estate Market Outlook – September 2014’ highlights that heightened confidence in the UK’s economy, with growth ahead of its closest competitors, the US and Canada, is triggering increased occupier demand – particularly in the office and industrial markets. This demand is resulting in lower vacancy rates and accelerating rental growth.

At a time of low supply of stock owing to previous constrained levels of construction, the UK property market is now attracting substantial interest from both UK and international investors. Rapid yield compression, aided by rental growth, has pushed average capital values up by 6.7% over the six months to August 2014, according to IPD.

Despite declining yields, investors’ risk appetite looks set to grow with property yields continuing to offer a sizeable spread above bond yields as shown in the chart below.

A significant yield spread still exists between property and bonds



Source: IPD, Bloomberg, August 2014

Notably, secondary offices in the South East are now outperforming prime assets, proving that prime is not always best. Throughout the rest of the country, secondary stock is catching up with those of prime assets as risk appetite increases but the better end of secondary will likely remain much preferred over the weaker end.

Commenting, Richard Gwilliam, Head of Research at M&G Real Estate, says: “The UK economy and property market are experiencing rapid growth, leaving behind a period of difficulty that discouraged risk appetite across the board. It’s a different picture now as the weight of capital targeting the sector is showing no signs of let-up. Investors, however, should not be blinded by a high short-term yield without fully assessing the risks to the long-term income stream of an asset.

“The strongest option for investors looking for mid to long-term rental growth is the office market encircling London, particularly those fringe areas benefiting from infrastructure projects.”

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For further information please contact:

Sophie Elliott / Drew McNeill

Phone: 020 7548 3669

Email: Sophie@redwoodconsulting.co.uk / Drew@redwoodconsulting.co.uk

Notes to Editors:

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M&G is the investment arm of Prudential Plc in the UK, Europe and Asia. For more information please visit www.mandg.com/realestate

About M&G

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