NIGHTINGALE PARTNERS

INTERNATIONAL PROPERTY INVESTMENT

Market Update

London, West End

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MARKET UPDATE

WEST END MARKET UPDATE

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OVERSEAS INVESTORS ATTRACTED TO UK ~
Average capital values for commercial property across the UK fell from their 2007 peak by approximately 45% (source IPD), which, when combined with a weak pound against most currencies has provided an exceptional buying opportunity for cash rich overseas investors. These investors have also been attracted by the relatively high income returns available from UK property at a time when interest rates have been extremely low.

RESTRICTED SUPPLY ~
More recently the increased demand in UK property has coincided with an acute shortage of investment stock as by and large those investors that were selling (ie the UK institutions and property companies) have now become buyers. Consequently we now have a mismatch between supply and demand, with strong prices being paid for investments of varying quality. Not surprisingly this has led to a strengthening of investment yields in recent months, most notably for prime assets sub £50 million.

DEMAND NOT JUST FOCUSED ON PRIME ~
Initially investor interest was focused on high quality well located buildings offering long term secure income (ideally in excess of 10 years).

However, many investors have now become more flexible in the type of properties they would buy (due in part to the severe shortage of stock, and the growing perception that we are through the worst of the recession).

Some are now prepared to take a view on issues that previously would have deterred them- in particular on stock that is over-rented and let on much shorter leases, and competition is appreciably stronger for most investment product, including the larger lot sizes (in excess of £50 million), where previously the lack of available debt had been a major deterrent. Not only are there more banks prepared to lend (we understand there are around 18 – 20 with serious capacity at the current time), but investors seem prepared to commit more cash.

INVESTOR DEMAND UNDETERRED BY SUBDUED OCCUPATIONAL MARKET ~
Investor demand undeterred by subdued occupational market-
This resurgence of investor interest has not been linked to an improving letting market, which at the current time remains subdued. Instead, investor demand has been stimulated by other factors (ie low interest rates, weak sterling and a market that has fallen in value by approximately 45%).

Several recovery funds are emerging- at the last count around 45 serious attempts had been made to launch new recovery funds, with perhaps the same number again of parties intending to raise funds.

EXCEPTIONALLY DIVERSE INVESTOR BASE (UK & OVERSEAS) ~
We have developed a comprehensive database of investment transactions undertaken in the West End over the years. During the last 4 months we have seen an exceptionally diverse investor base with buyers from South Africa, Malaysia, Japan, Korea, Ukraine, Azerbaijan, Germany, Italy, Libya, various parts of the Middle East, as well as the UK- we would suggest this investor base is broader (in terms of the variety of overseas investors) than at the peak of the market.

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WEIGHT OF MONEY DRIVING VALUES UP ~
Values have (not surprisingly) increased given the conditions outlined above. Good quality investments (single or multi-let) are currently being priced off yields of 5.25% to 6.25%, where previously they would have been priced off yields of 6.5% to 7.5%.

WEST END STILL AN ATTRACTIVE MARKET TO INVEST IN BUT STOCK SELECTION CRITICAL ~
To conclude, we still believe the West End provides a good buying opportunity. Whilst values have "bounced back" from their low point earlier this year, they are still significantly down on their 2007 peak. Interest rates remain at historically low levels and the weak pound continues to provide a further discount to overseas investors.

Tenant demand remains subdued and many consider rental values are unlikely to recover for at least two years. We would recommend where possible targeting property that is not significantly over-rented (in particular property let in 2007 and 2008 when rental values were at their highest). In addition property with significant lease expiries in the next 2 years should in our view be avoided, unless heavily discounted. However, some investors are now looking at sites with development potential and the opportunity to deliver space onto the market in late 2011/2012, in anticipation of improved letting conditions at that point.

NIGHTINGALE PARTNERS WELL PLACED TO SOURCE OPPORTUNITIES ~
The challenge for those wishing to buy property in the West End will be to secure attractive opportunities in a market that is experiencing exceptionally high demand from both UK and overseas investors. Few investors are interested in selling at the moment, since they believe growth prospects remain favourable.

However, we believe opportunities will emerge (in part because some investors will see the recent "mini" recovery as an opportunity to take a profit, perhaps on property bought in late 2008/early 2009).

We have developed strong relationships with some of the major owners of UK real estate over a number of years. We believe these relationships will be critical to enable the team to secure opportunities that will not always be available in the open market place. In addition, we have strong relationships with a number of the active lending banks in the market today and are finding that combining these relationships at an early stage is most productive when it comes to competitive bidding scenarios.

Finally, if you would like to discuss the West End market in further detail please do not hesitate to contact either Richard Pope or Rupert Mitchell on 020 7399 0640. Further information on Nightingale Partners can be found by visiting our website -

www.nightingalepartners.com