HSM Chartered Surveyors
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Quarter 3 2014

HSM INVESTMENT MARKET COMMENTARY

PRIME REGIONAL YIELDS

Sector	Type	Yield	Barometer
Offices	South East Major Cities	<5.25% <5.25%	
Retail	High Street Shopping Centres	4.50% 4.50%	
Retail Warehouse	Open A1 Bulky	4.25% 5.50%	
Industrial	Distribution SE Multi-let Regional Multi-let	5.00% 5.25% 5.75%	
Finance	Base Rate Libor 3m 5 Year Swaps 10 Year Gilts RPI CPI	0.50% 0.56% 1.80% 2.37% 2.39% 1.50%	Key Yields Hardening Yields Neutral Yields Softening

Yields - rack rented equivalent
Date produced: 6th October 2014

HSM Comment

The last quarter has seen commercial property yields compress further reaching close to 2007 levels in many areas. This has been driven by the weight of money chasing yield and moving away from London and the South East as confidence grows in the regions. In a further effort to secure yield investors are climbing the risk curve with a continued interest in secondary property resulting in the spread between prime and secondary property yields falling.

After a pause in activity for the Scottish Referendum, normal business has been resumed with owners taking advantage of the recent prices to off-load stock or wind up vehicles mid term to improve IRR's.

Going forward, forecasters expect gilt yields to rise as QE is lifted reducing the yield gap with property, making rental growth the principal driver for performance requiring the traditional property skills to come to the fore; i.e. stock selection and asset management. With improved tenant demand and rental growth the risk curve will continue to be explored starting with "dirty prime" and speculative development as the next cycle begins.

Tim Morgan
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