








HSM INVESTMENT MARKET COMMENTARY

PRIME REGIONAL YIELDS

March 2015

Sector	Type	Yield	Barometer
Offices	South East Major Cities	<5.25% <5.25%	
Retail	High Street Shopping Centres	<4.50% 4.25%	
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% 1.73% 1.94% 1.10% 0.30%	Key Yields Hardening  Yields Neutral  Yields Softening 

Yields - rack rented equivalent
Date produced: 2nd March 2015

HSM Comment

With the IPD Annual Index just out showing a massive 17.8% total return for 2014 (5.2% income and 12.0% capital), the highest for 8 years, surely this is a peak unlikely to be scaled for some years?

Property does currently seem to offer a realistic alternative to equities and gilts having an attractive yield differential further enhanced by low interest rates and increasing debt opportunities. The latest IPF Consensus Forecast reflects this and is predicting total returns of 10.8% for 2015 with an average for the next 4 years of 9.2%. Rental growth is still sporadic outside of London and continuing performance is expected from further yield compression. However most prime yields are at their all time peaks and yield improvement is likely to be from the non core sectors.

Maybe these expectations are optimistic? Have the geopolitical issues been fully factored? These range from uncertainties and conflicts in and around Europe, destabilising of the Middle East and in the UK political uncertainty with spring elections. Yield compression has been a factor of the success or failure of the other asset classes with property currently lacking rental growth in depth. A position similar to 1995, when after an initial surge following the earlier recession, returns fell back before resuming double digit figures as rental growth and tenant demand finally appeared.

Property returns for 2015 – maybe closer to 8.5%?

Tim Morgan
March 2015