PRESS CUTTING...

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The heat is on as funds set their sights on acquisitions

The busiest period since 2006 means summer holidays will be in short supply. By David Parsley

It's hot in the city – and it's not just the weather. The real estate investment community is busier than it has been since the heady days of 2006, which is great news for the industry, but not for those expecting to take a long summer break.

The deals have been flowing for months: Land Securities paid £656m for 30% of Bluewater; MEPC sold its business park portfolio to Oaktree Capital Management for £430m; Tritax spent £98m on a big Morrisons distribution shed in Sittingbourne; Blackstone bought Max Property for £448m; and Greystar and Goldman Sachs snapped up 5,000 student accommodation beds from Lone Star for £300m.

Despite August approaching, it does not look as though there is about to be any let up in activity. As *Property Week* reveals today, the market is set to be flooded with shopping centres for sale. Investment gurus may have to cancel their holidays if they want to grab the deals while they still represent value for money. As Tim Morgan, a partner at Hoddell Stotesbury Morgan, puts it: "You can't take August off this year. You'll miss out if you do."

He offers three key reasons for the summer rush: "First, there is the sheer weight of money around. UK funds have increased their allocations to property as their actuaries view the sector as offering more attractive returns than other forms of investment, such as gilts. The overseas guys are now beginning to move their cash from London to the south-east, the golden triangle industrial sector and into provincial cities. And the banks are lending again, and competing to lend to the property sector.

"Second, values continue to rise, so the market needs to spend now. The Investment Property Databank has total returns for the first six months of the year at 8.8%, and that could be about 12%-14% by the end of 2014, so people need to get there money spent as soon as possible.

"Third, the cost of acquisition is so great, the market tends to buy in the first three quarters and sell in the final quarter, so it can keep as much of the income as possible."

The frenetic activity is resulting in keener yields, another reason to buy now and take a winter beach holiday. In the office market, the average UK yield stands at 5.75%, according to IPD, although with the current level of activity, this is coming in to about 5.25% on many deals. On industrial schemes, yields are even keener than in the retail sector, hovering at about 5% for prime sites.

Life's a beach: the investment community is too busy to take a holiday this summer

"A lot of funds have raised a lot of money – and now they are desperate to spend it"

A lack of supply is also affecting values, which is leading many to widen their definition of what constitutes prime. While the London market has, for many, reached a peak, the regions are now finding what was, until recently, considered secondary space is now commanding the attention of major buyers.

One of the best examples of how the City heat is spreading to the regions is M&G Real Estate's £320m purchase of Royal Bank of Scotland's Spinningfields offices in Manchester. With 23 years left on the RBS lease, and a 3% annual rise in rent, it is believed the deal came in at a sub-5% yield.

For some, however, simply trying to buy stock is proving difficult, whether it's a single property or a portfolio. Clive Boultbee Brooks, of Boultbee Brooks Real Estate, is finding just that.

"We have had a good run and sold a lot of assets recently," he says. "The problem is replacing the stock. We are going to have a very busy summer. It is very difficult to buy stuff right now. There is so much competition. Normally we would shut down for August but we still want to be out there getting into the action."

James McCluskey, a partner in Knight Frank's West End investment office, agrees. "There is a flurry of stock coming on to the market," he says. "August is usually a good time to catch up on things in the office, but I'm working on four deals. There is something to be said for there not being as much competition around during the summer, with the big sovereign wealth funds and wealthy individuals taking a break. But, that can't be said for the Americans. They never take a holiday."

Scott Tyler, managing partner of Allsop's commercial, believes "natural delays" in getting big portfolios together are adding to the intensity of activity this summer. "We are close to the end of July and product is still being released into the market," he says. "And there are still several portfolios to come. Workloads are high among investment teams."

This summer promises to be very different from last summer, agrees Dr Neil Blake, head of UK and EMEA research at CBRE. "The school holidays have begun and the train in didn't feel any less busy," he says. "A lot of funds have raised a lot of money, and now they want to spend it. In fact, they're desperate to spend it. Even if that does mean missing the beach." ■

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