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LEVY



INTELLIGENCE IS OUR REAL ESTATE



LONDON MARKETS ANALYSIS

2016

IN ASSOCIATION WITH

CPA WPA
City Property Association Westminster Property Association

LONDON MARKETS ANALYSIS 2016

WELCOME

BONNY HEDDERLY
Senior Associate, K&L Gates



TOPICS

01

THE LONDON MARKET

Simon Heilpern

Levy Real Estate LLP

02

**LONDON MARKETS
ANALYSIS 2016:
KEY FINDINGS**

Colm Lauder

MSCI Real Estate-IPD

01

THE LONDON MARKET

Simon Heilpern

Head of Investment & Development

Levy Real Estate

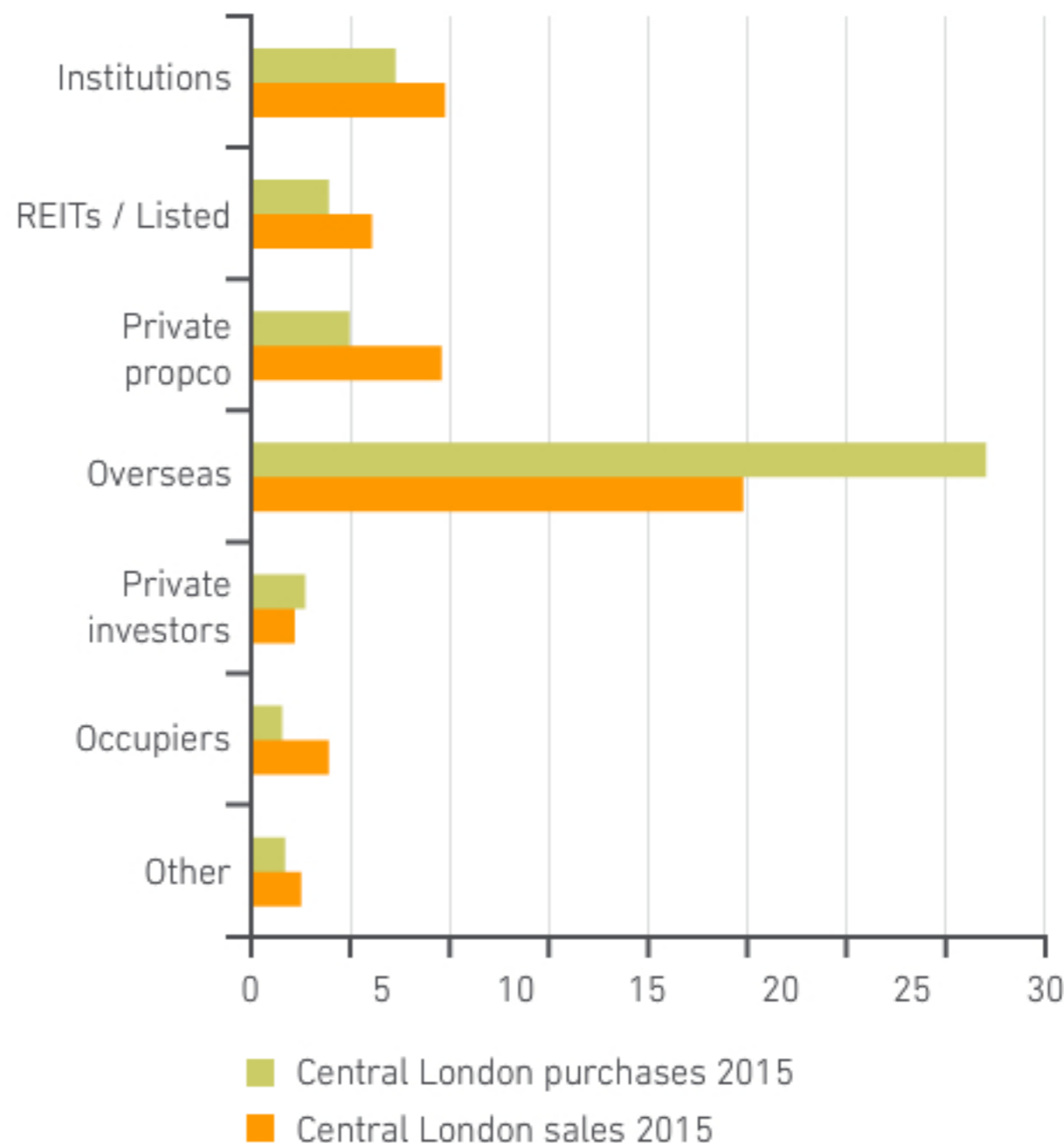


INVESTMENT MARKET CONDITIONS

MARKET ACTIVITY

- The volume of Central London real estate transactions in 2015 hit £23.6 billion, similar to 2014 and 2013.
- Overseas investors continue to invest heavily, accounting for just under £15 billion (63.55% of total) in Central London in 2015.
- Overseas investors have now totted up £44.32 billion of net investment since 2003, with a massive £16.28 billion in 2013, £15 billion in 2014 and £14.8 billion in 2015.
- Net overseas investment has been:
 - £4.92 bn in 2015
 - £5.18 bn in 2014
 - £4.37 bn in 2013

ACTIVITY BY INVESTOR TYPE, 2015 TO DECEMBER, £BN

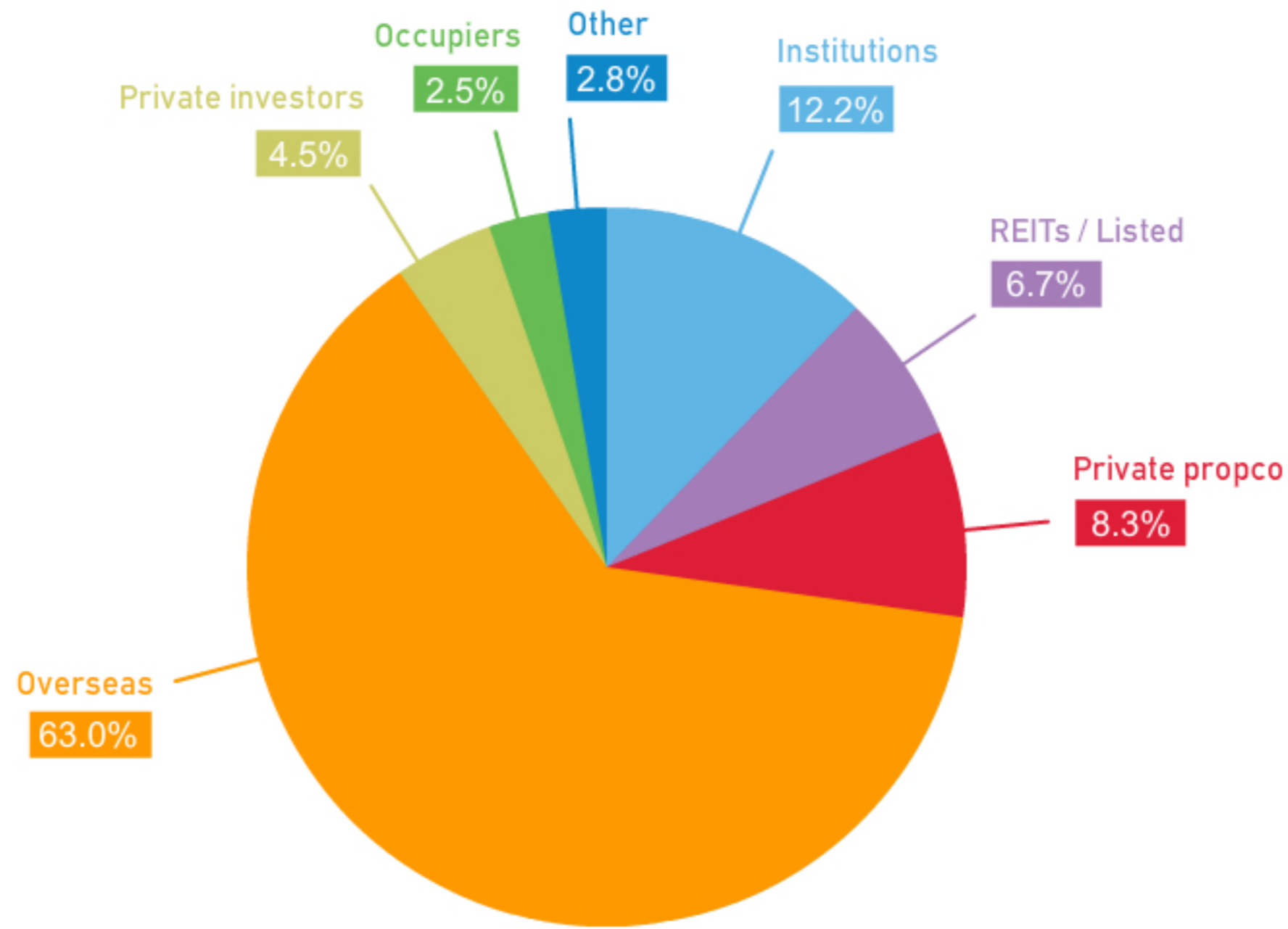


Source: Property Data

CENTRAL LONDON INVESTOR BREAKDOWN 2015

	PURCHASES £	SALES £	NET £
Institutions	2,875 m	3,891 m	-1,016 m
REITs / Listed	1,586 m	2,452 m	-866 m
Private propco	1,956 m	3,826 m	-1,870 m
Overseas	14,833 m	9,909 m	4,924 m
Private investors	1,057 m	908 m	149 m
Occupiers	591 m	1,554 m	-963 m
Other	663 m	1,021 m	-358 m

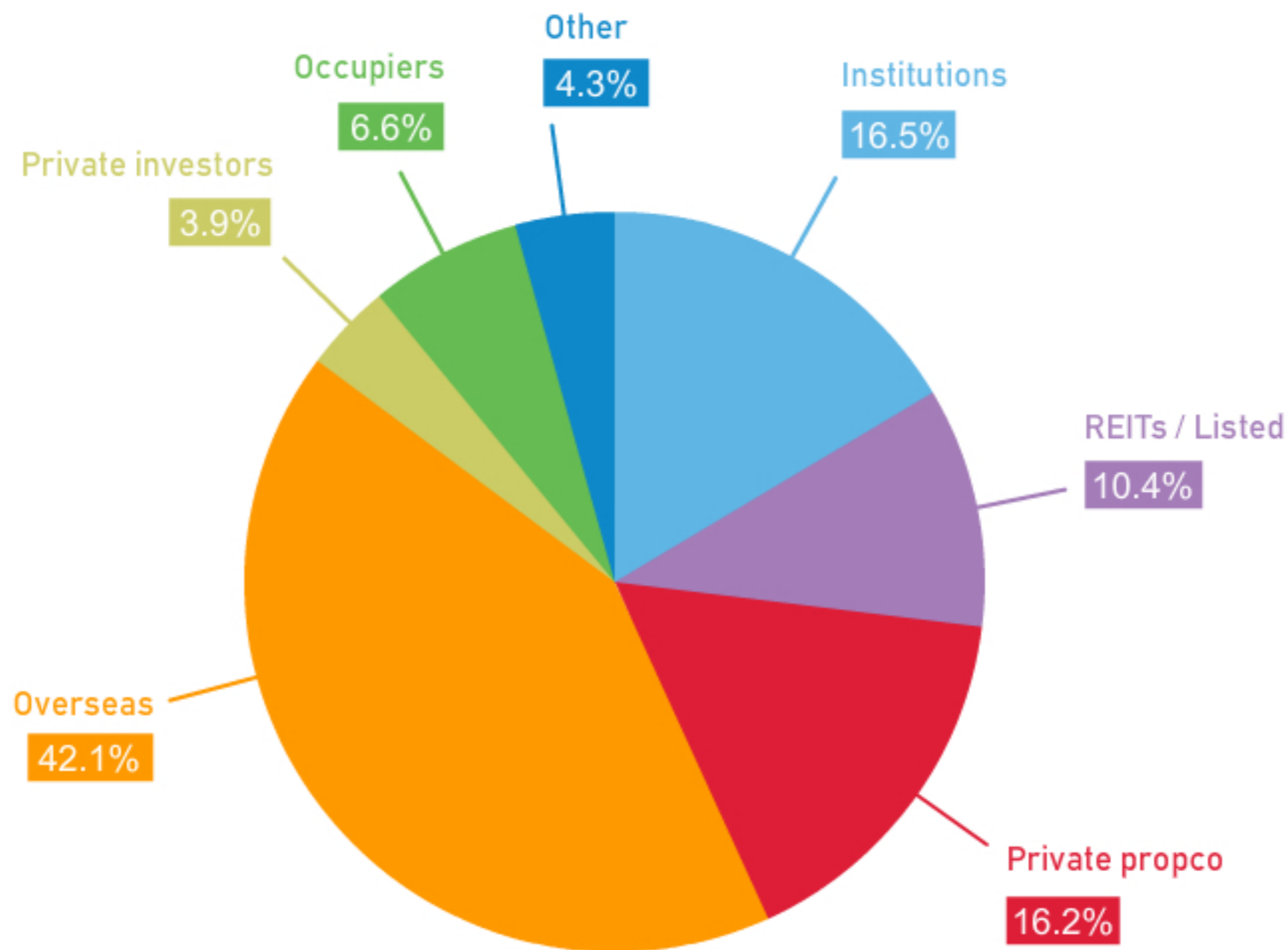
CENTRAL LONDON PURCHASES 2015



Source: Property Data



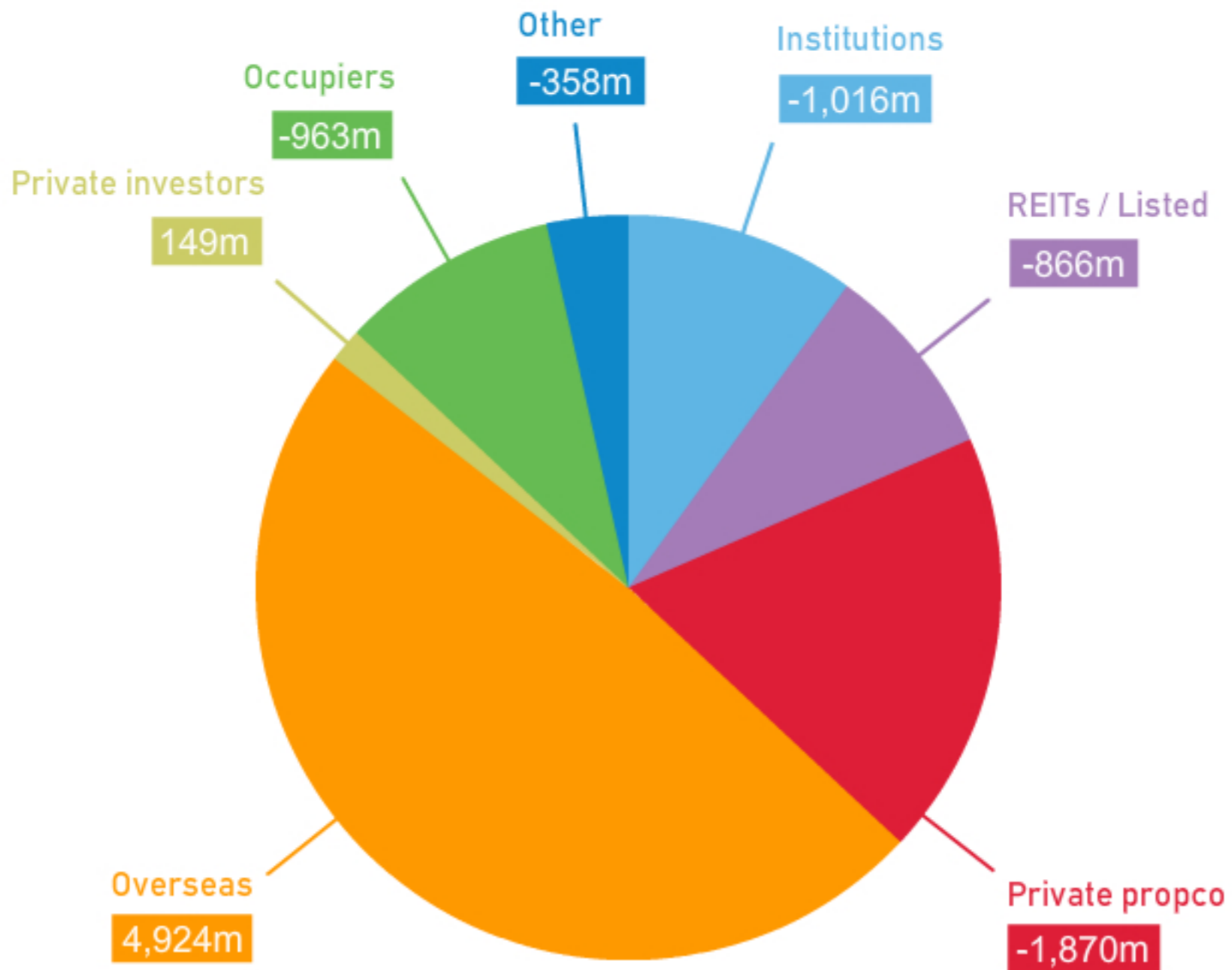
CENTRAL LONDON SALES 2015



Source: Property Data

CENTRAL LONDON NET INVESTMENT BY OVERSEAS INVESTORS 2015

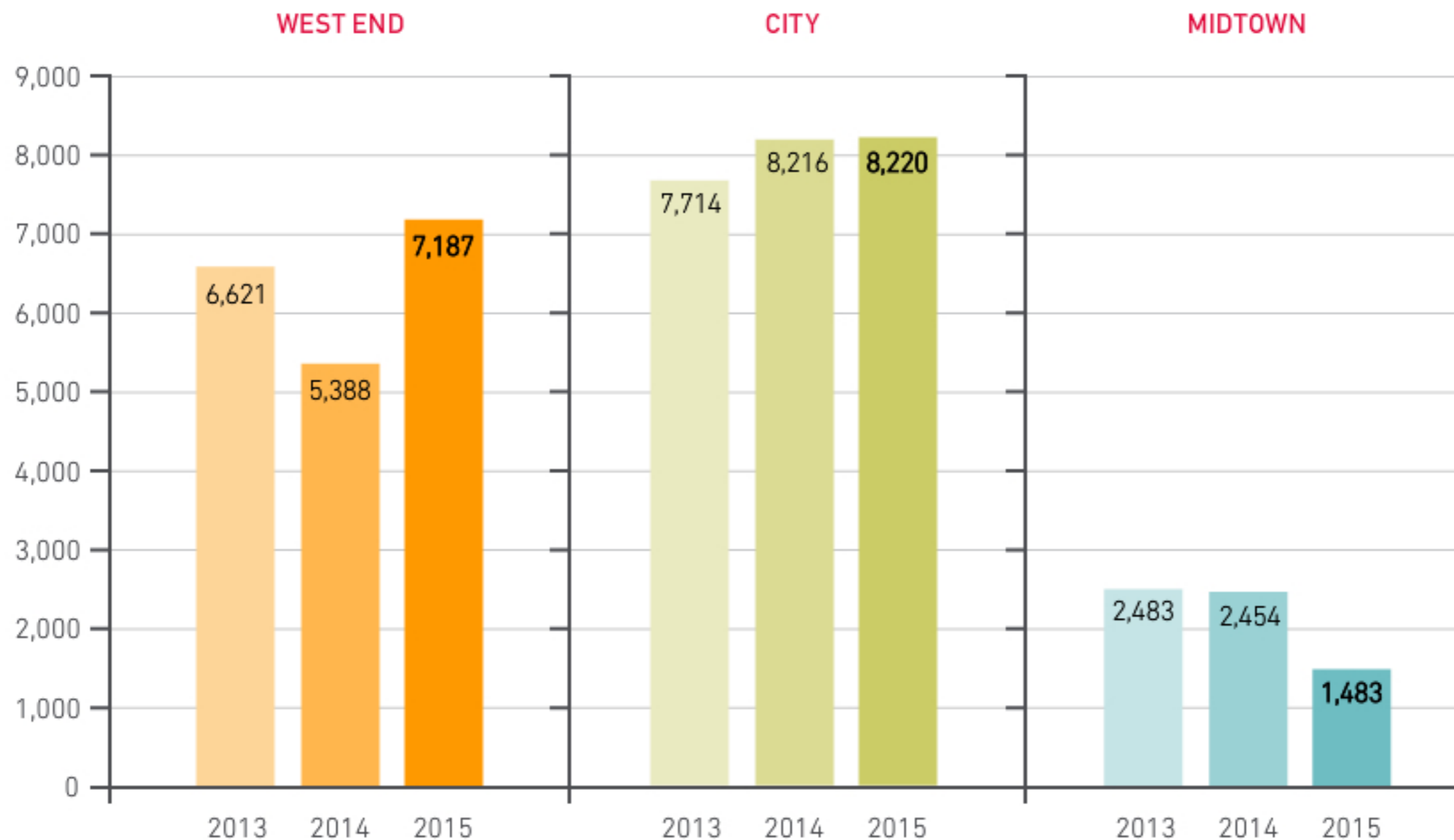
NET INVESTMENT, £



Source: Property Data



CENTRAL INVESTMENT - BREAKDOWN BY MARKET

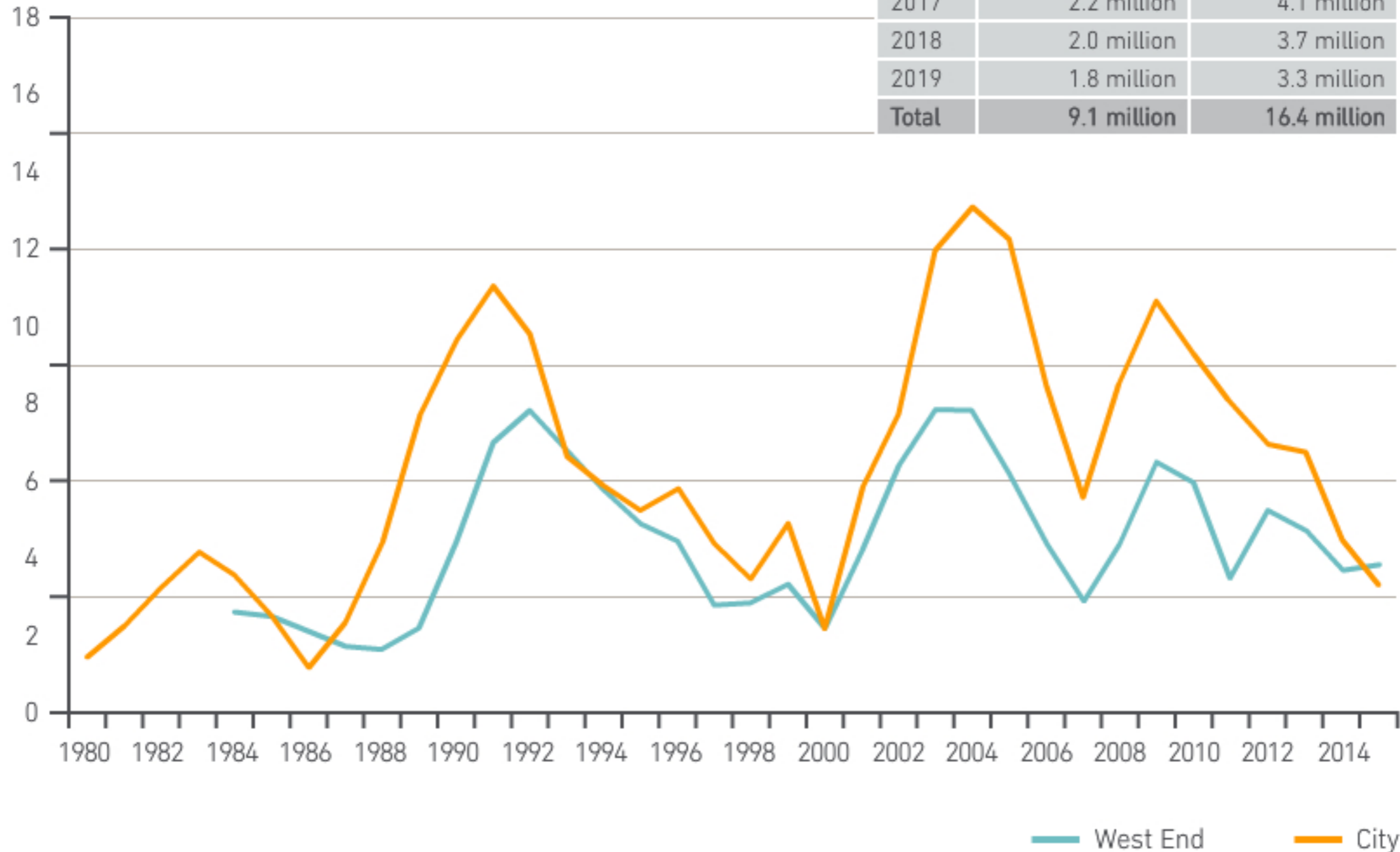


Source: Property Data



OCCUPIER MARKET OUTLOOK

VACANCY RATE



CENTRAL LONDON OFFICE PIPELINE		
	West End, sq ft	City, sq ft
2016	3.1 million	5.3 million
2017	2.2 million	4.1 million
2018	2.0 million	3.7 million
2019	1.8 million	3.3 million
Total	9.1 million	16.4 million

Source: Savills

OCCUPIER MARKET OUTLOOK

OFFICE CONSTRUCTION ORDERS, £m



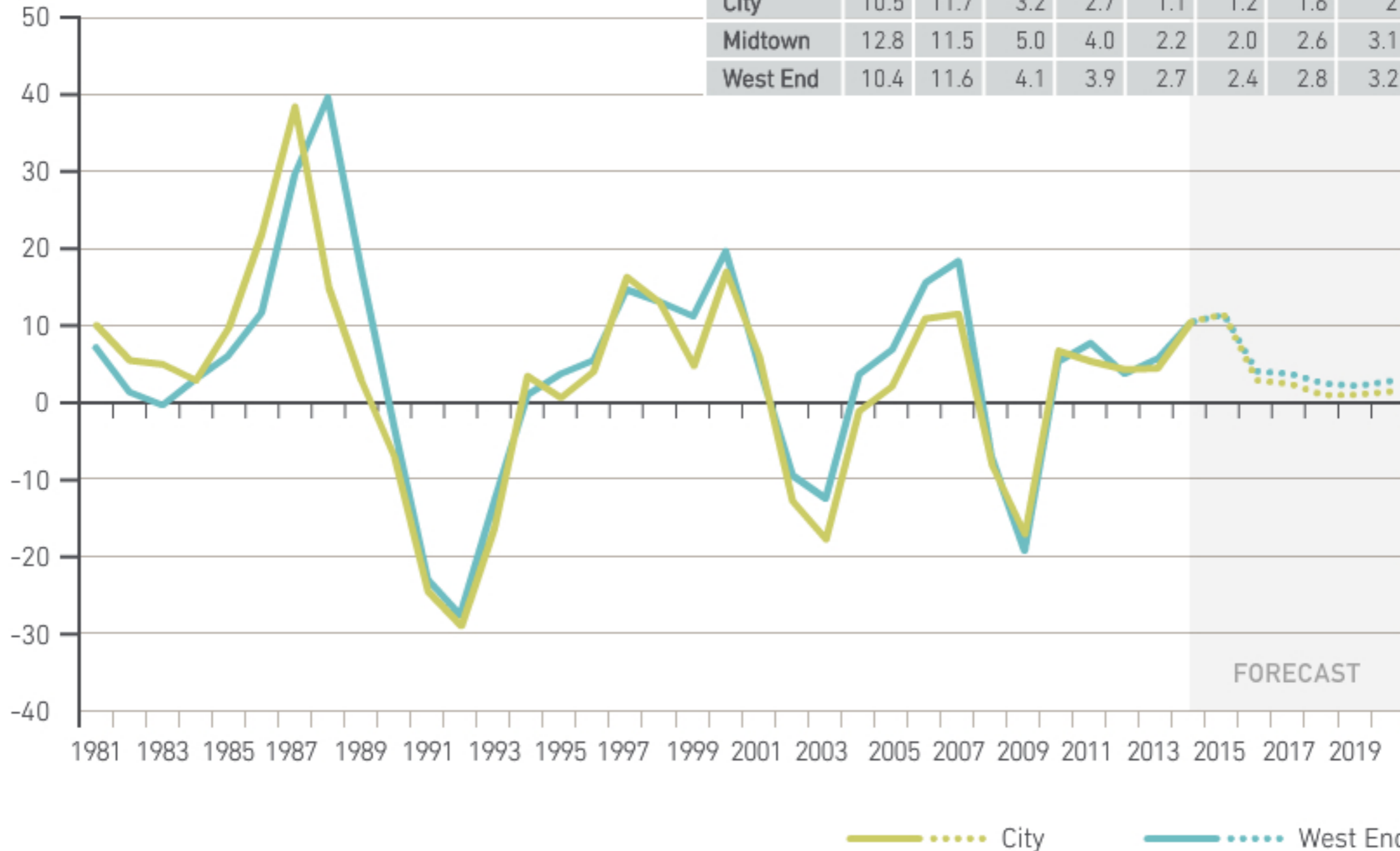
Source: ONS



STANDARD OFFICES RENTAL GROWTH FORECAST

RENTAL GROWTH, OFFICES, % Y/Y

RENTAL GROWTH SUMMARY								
	2014	2015	2016	2017	2018	2019	2020	2015-2020
City	10.5	11.7	3.2	2.7	1.1	1.2	1.6	2
Midtown	12.8	11.5	5.0	4.0	2.2	2.0	2.6	3.1
West End	10.4	11.6	4.1	3.9	2.7	2.4	2.8	3.2



Graph source: IPD, RES Table source: Real Estate Strategies



RISKS

BREXIT vote

Thursday
23rd June

**Mayoral
election**

Thursday
5th May

**Rating
revaluation**
Antecedent date
1st April 2015 /
Implementation
date 1st April
2017

**Green issues/
sustainability**

**Overseas
investors with-
drawing money
from UK market**
(oil price drop
increases
this risk)

**New supply
greater than
pipeline
estimates**

**Equity
market fall**
increases the weight
of property in
institutional
portfolios

**Equity
market more
attractively
priced than
real estate**

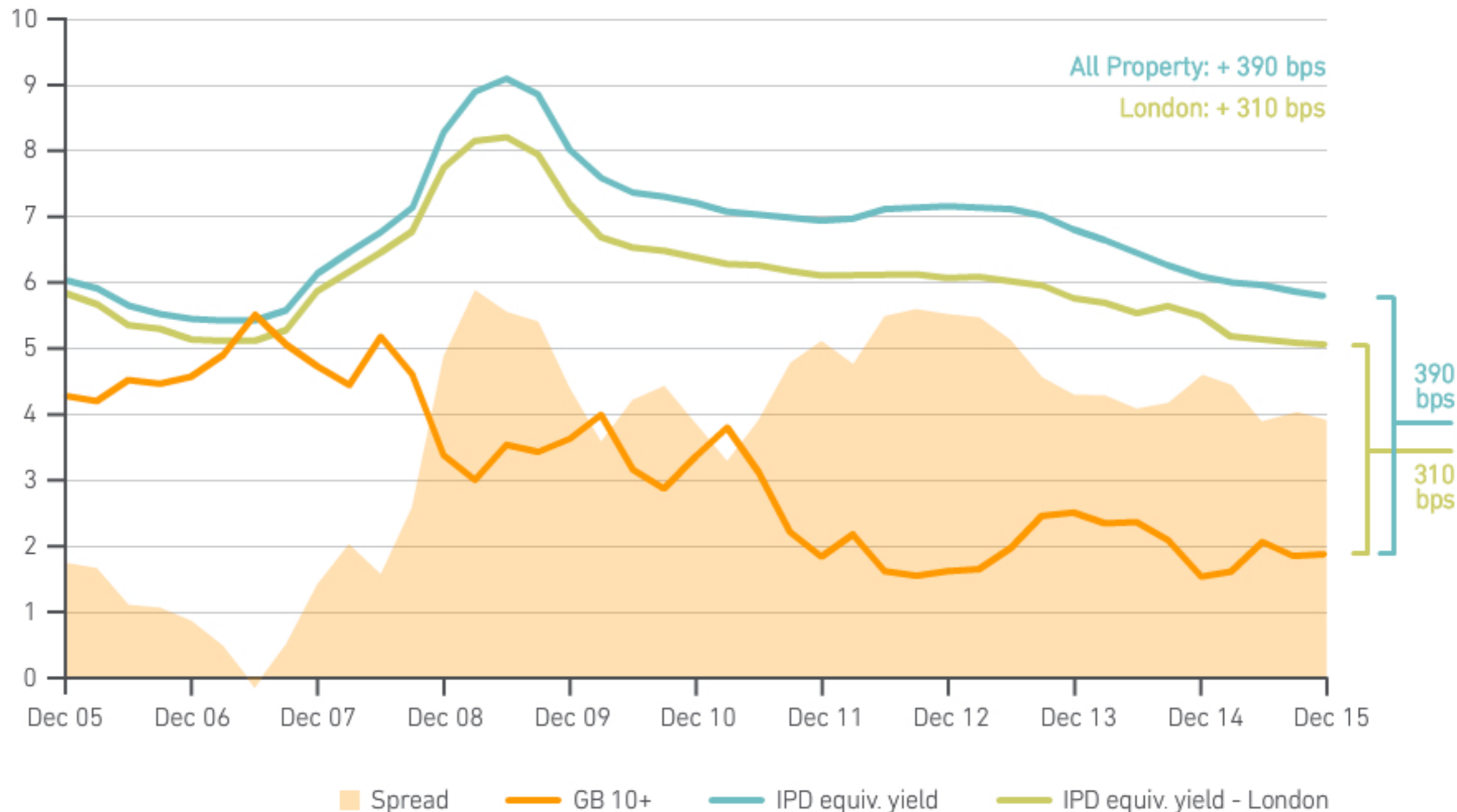
**Real
bond yields**
rise more quickly
than expected,
pushing up real
estate yields

**On the
upside...**
Real assets remain
in favour as interest
rates remain lower
for longer



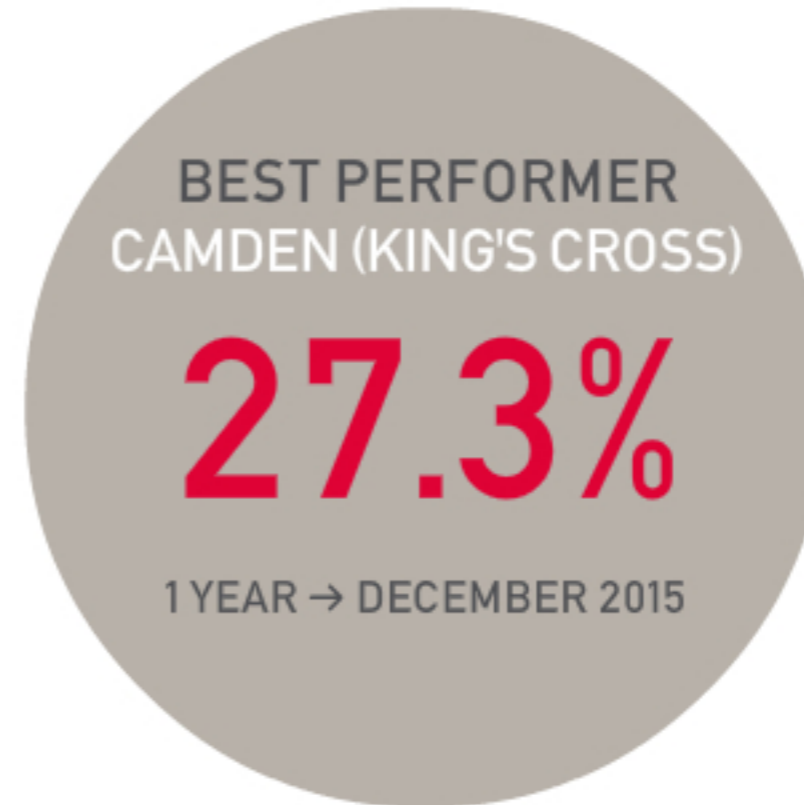
REAL ESTATE AND BOND RELATIONSHIP

EQUIVALENT YIELDS vs 10-YEAR GOVERNMENT BONDS



Source: MSCI

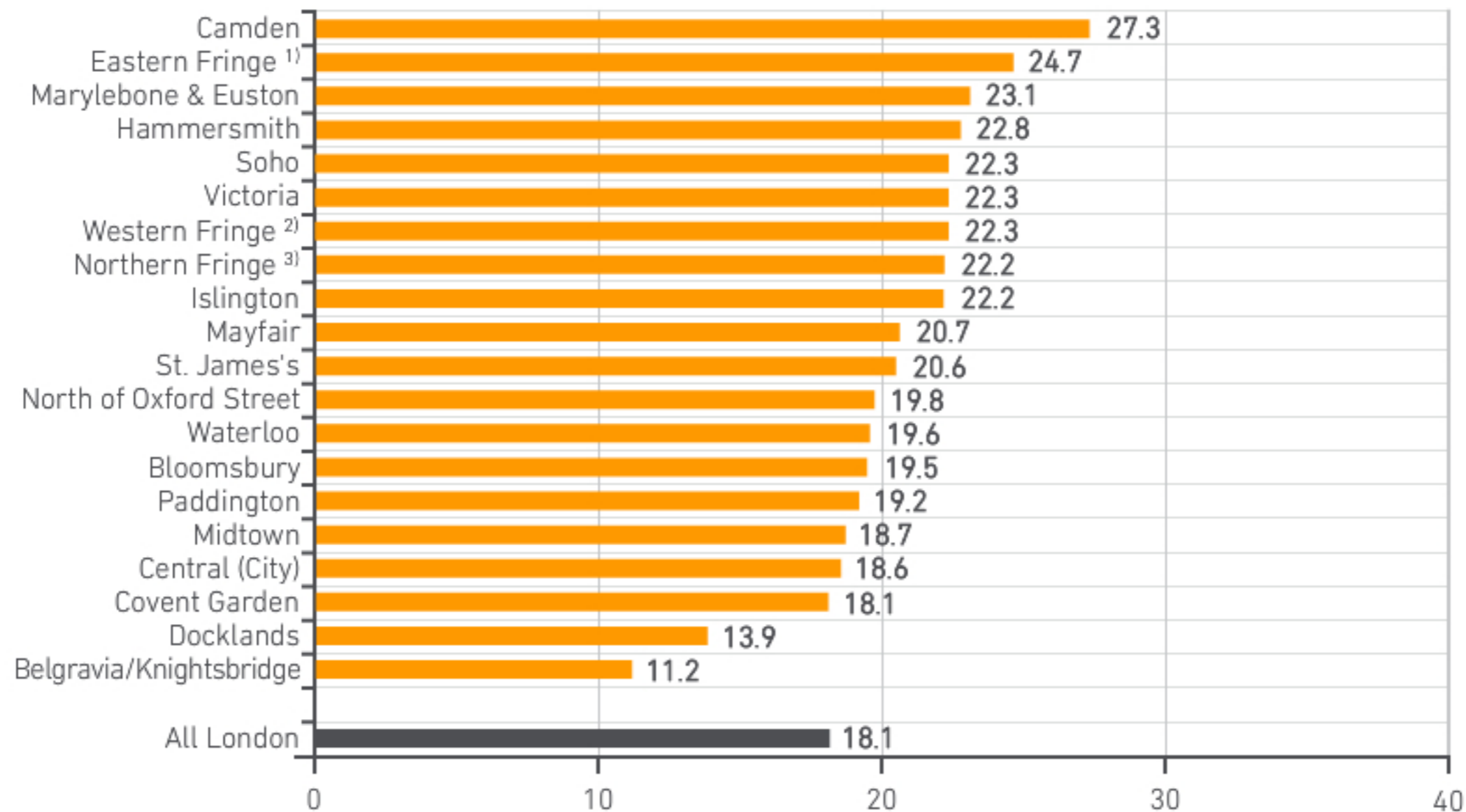
TOTAL RETURN 2015 - POWERFUL PERFORMANCE





TOTAL RETURN 2015

RETURN, %

¹⁾ Hoxton, Spitalfields, Whitechapel²⁾ Clerkenwell, Smithfield & Farringdon³⁾ Shoreditch, City Road & Old Street



TOTAL RETURN 2015: CHANGE FROM 2014

	2015 RETURN	2014 RETURN	CHANGE
ALL LONDON	18.1 %	22.2 %	-4.1 %
CAMDEN	27.3 %	30.3 %	-3.0 %
EASTERN FRINGE ¹⁾	24.7 %	26.3 %	-1.6 %
MARYLEBONE & EUSTON	23.1 %	26.8 %	-3.7 %
HAMMERSMITH	22.8 %	26.0 %	-3.2 %
SOHO	22.3 %	26.4 %	-4.1 %
VICTORIA	22.3 %	18.3 %	+4.0 %
WESTERN FRINGE ²⁾	22.3 %	26.0 %	-3.7 %
NORTHERN FRINGE ³⁾	22.2 %	32.3 %	-10.1 %
ISLINGTON	22.2 %	18.0 %	+4.2 %
MAYFAIR	20.7 %	28.6 %	-7.9 %
ST. JAMES'S	20.6 %	23.9 %	-3.3 %
NORTH OF OXFORD STREET	19.8 %	21.7 %	-1.9 %
WATERLOO	19.6 %	23.8 %	-4.2 %
BLOOMSBURY	19.5 %	30.1 %	-10.6 %
PADDINGTON	19.2 %	16.2 %	+3.0 %
MIDTOWN	18.7 %	22.3 %	-3.6 %
CENTRAL (CITY)	18.6 %	18.8 %	-0.2 %
COVENT GARDEN	18.1 %	25.5 %	-7.4 %
DOCKLANDS	13.9 %	30.2 %	-16.3 %
BELGRAVIA/KNIGHTSBRIDGE	11.2 %	18.3 %	-7.1 %

¹⁾ Hoxton, Spitalfields, Whitechapel²⁾ Clerkenwell, Smithfield & Farringdon³⁾ Shoreditch, City Road & Old Street

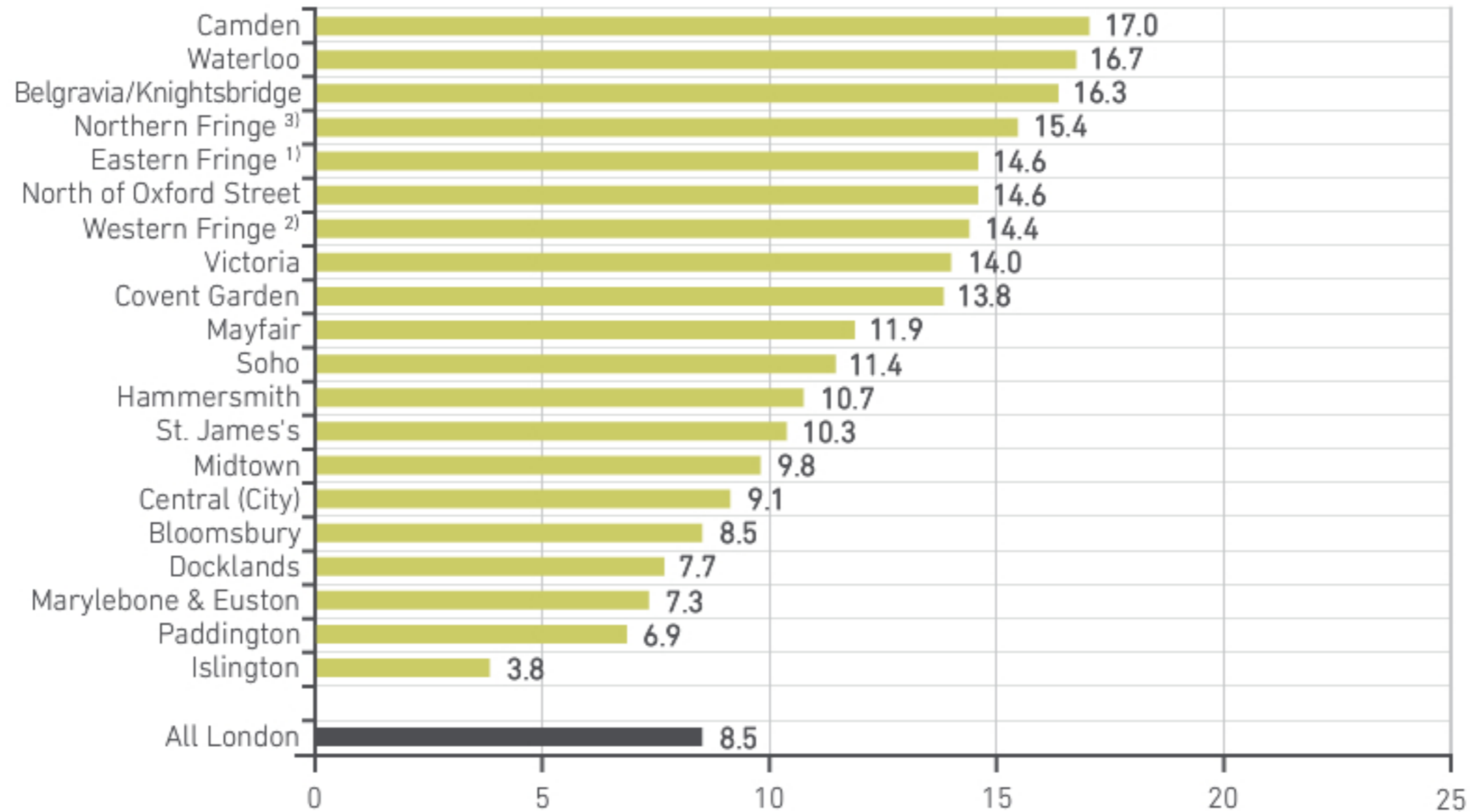
RENTAL VALUE GROWTH 2015 - RENTAL GROWTH DOUBLES





RENTAL VALUE GROWTH 2015

GROWTH, %

¹⁾ Hoxton, Spitalfields, Whitechapel²⁾ Clerkenwell, Smithfield & Farringdon³⁾ Shoreditch, City Road & Old Street

RENTAL VALUE GROWTH 2015: CHANGE FROM 2014

	2015 RETURN	2014 RETURN	CHANGE
ALL LONDON	8.5 %	7.8 %	+0.7 %
CAMDEN	17.0 %	19.4 %	-2.4 %
WATERLOO	16.7 %	8.8 %	+7.9 %
BELGRAVIA/KNIGHTSBRIDGE	16.3 %	3.8 %	+12.5 %
NORTHERN FRINGE ³⁾	15.4 %	21.7 %	-6.3 %
EASTERN FRINGE ¹⁾	14.6 %	10.3 %	+4.3 %
NORTH OF OXFORD STREET	14.6 %	9.2 %	+5.4 %
WESTERN FRINGE ²⁾	14.4 %	16.5 %	-2.1 %
VICTORIA	14.0 %	1.5 %	+12.5 %
COVENT GARDEN	13.8 %	11.0 %	+2.8 %
MAYFAIR	11.9 %	15.0 %	-3.1 %
SOHO	11.4 %	10.3 %	+1.1 %
HAMMERSMITH	10.7 %	8.7 %	+2.0 %
ST. JAMES'S	10.3 %	10.4 %	-0.1 %
MIDTOWN	9.8 %	11.0 %	-1.2 %
CENTRAL (CITY)	9.1 %	6.9 %	+2.2 %
BLOOMSBURY	8.5 %	11.3 %	-2.8 %
DOCKLANDS	7.7 %	3.0 %	+4.7 %
MARYLEBONE & EUSTON	7.3 %	11.5 %	-4.2 %
PADDINGTON	6.9 %	10.5 %	-3.9 %
ISLINGTON	3.8 %	10.8 %	-7.0 %

¹⁾ Hoxton, Spitalfields, Whitechapel²⁾ Clerkenwell, Smithfield & Farringdon³⁾ Shoreditch, City Road & Old Street

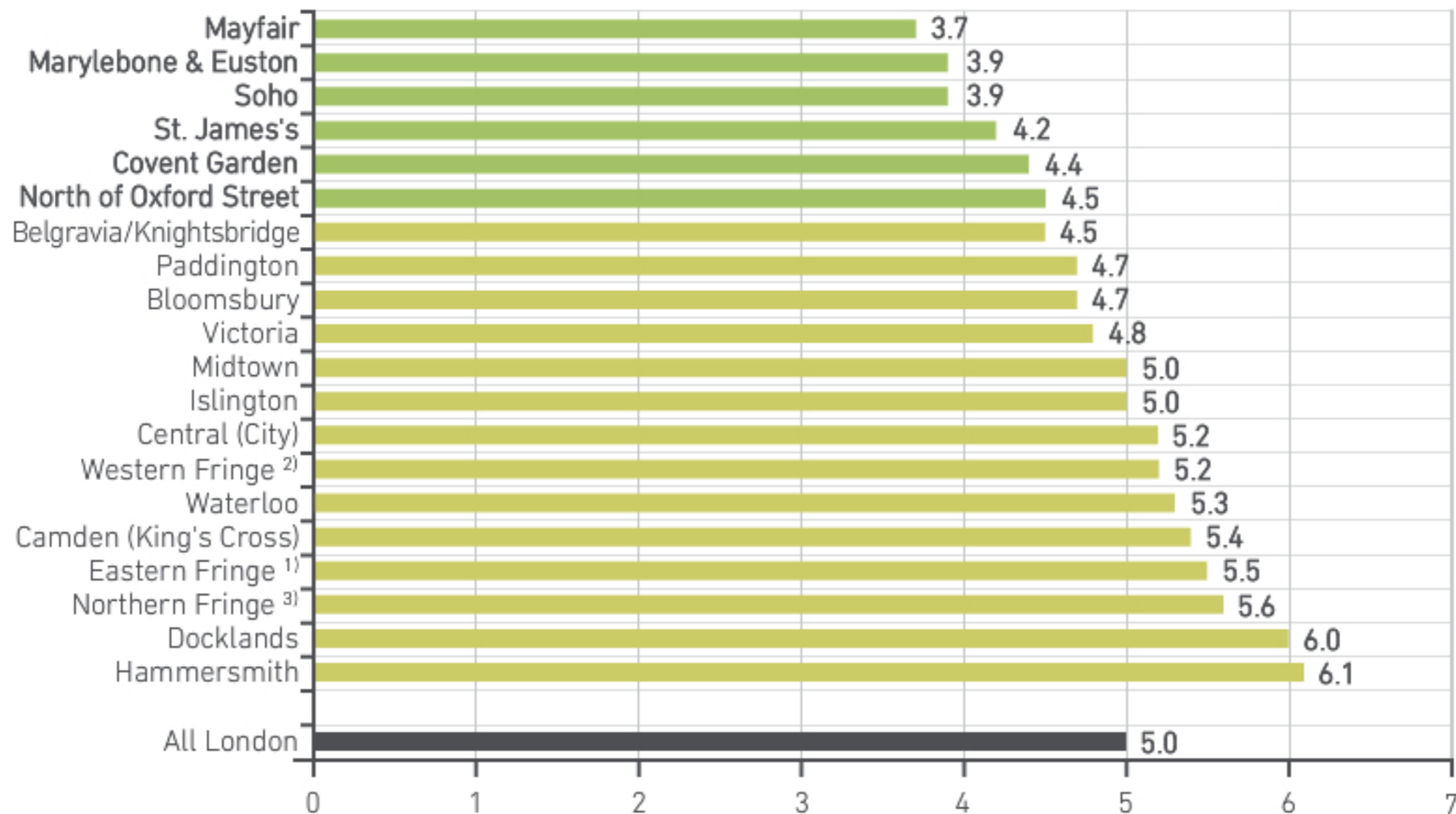
EQUIVALENT YIELD 2015 - YIELD COMPRESSION





EQUIVALENT YIELD 2015

EQUIVALENT YIELD, %



¹⁾ Hoxton, Spitalfields, Whitechapel ²⁾ Clerkenwell, Smithfield & Farringdon ³⁾ Shoreditch, City Road & Old Street



EQUIVALENT YIELD 2015: CHANGE FROM 2014

	2015 RETURN	2014 RETURN	BASIS POINT CHANGE
ALL LONDON	5.0 %	5.2 %	-20 bps
MAYFAIR	3.7 %	3.9 %	-20 bps
MARYLEBONE & EUSTON	3.9 %	4.6 %	-70 bps
SOHO	3.9 %	4.3 %	-40 bps
ST. JAMES'S	4.2 %	4.6 %	-40 bps
COVENT GARDEN	4.4 %	4.4 %	-
NORTH OF OXFORD STREET	4.5 %	4.5 %	-
BELGRAVIA/KNIGHTSBRIDGE	4.5 %	4.5 %	-
PADDINGTON	4.7 %	5.1 %	-40 bps
BLOOMSBURY	4.7 %	5.3 %	-60 bps
VICTORIA	4.8 %	5.1 %	-30 bps
MIDTOWN	5.0 %	5.3 %	-30 bps
ISLINGTON	5.0 %	5.6 %	-60 bps
CENTRAL (CITY)	5.2 %	5.6 %	-40 bps
WESTERN FRINGE ²⁾	5.2 %	6.0 %	-80 bps
WATERLOO	5.3 %	5.3 %	-
CAMDEN (KING'S CROSS)	5.4 %	5.7 %	-30 bps
EASTERN FRINGE ¹⁾	5.5 %	5.9 %	-40 bps
NORTHERN FRINGE ³⁾	5.6 %	6.0 %	-40 bps
DOCKLANDS	6.0 %	6.5 %	-50 bps
HAMMERSMITH	6.1 %	6.3 %	-20 bps

¹⁾ Hoxton, Spitalfields, Whitechapel²⁾ Clerkenwell, Smithfield & Farringdon³⁾ Shoreditch, City Road & Old Street



MARKET EXAMPLES




MARKET EXAMPLES - MAYFAIR

	2014
	15 SACKVILLE STREET
SALE DATE	Q3 2014
TENURE	Freehold
USE	Office & Retail
PURCHASE PRICE	£83.06m
CAPITAL VALUE (psf)	£2,159
SIZE (sq ft)	38,470
NET INITIAL YIELD	3.90%

	2015
	9 CLIFFORD STREET
SALE DATE	Q4 2015
TENURE	Freehold
USE	Office
PURCHASE PRICE	£38.00m
CAPITAL VALUE (psf)	£2,872
SIZE (sq ft)	13,231
NET INITIAL YIELD	1.88%

MARKET EXAMPLES - SOHO

	2014
33 GOLDEN SQUARE, W1	
SALE DATE	Q2 2014
TENURE	Freehold
USE	Office
PURCHASE PRICE	£23.50m
CAPITAL VALUE (psf)	£1,366
SIZE (sq ft)	17,198
NET INITIAL YIELD	3.25%

	2015
37-38 GOLDEN SQUARE, W1	
SALE DATE	Q3 2015
TENURE	Freehold
USE	Office & Retail
PURCHASE PRICE	£43.02m
CAPITAL VALUE (psf)	£1,528
SIZE (sq ft)	28,125
NET INITIAL YIELD	1.96%

MARKET EXAMPLES - MARYLEBONE & EUSTON


	2014
6 CAVENDISH PLACE	
SALE DATE	Q3 2014
TENURE	Virtual freehold
USE	Office
PURCHASE PRICE	£18.00m
CAPITAL VALUE (psf)	£1,424
SIZE (sq ft)	12,882
NET INITIAL YIELD	3.50%

	2015
101 WIGMORE STREET	
SALE DATE	Q3 2015
TENURE	Freehold
USE	Office & Retail
PURCHASE PRICE	£97.00m
CAPITAL VALUE (psf)	£1,764
SIZE (sq ft)	55,004
NET INITIAL YIELD	2.80%



MARKET EXAMPLES - CAMDEN / KING'S CROSS

	2014
	35-37 KENTISH TOWN ROAD
SALE DATE	Q3 2014
TENURE	Freehold
USE	Office
PURCHASE PRICE	£14.07m
CAPITAL VALUE (psf)	£569
SIZE (sq ft)	24,731
NET INITIAL YIELD	3.79%

	2015
	CENTRO, PLENDER STREET & MANDELA STREET
SALE DATE	Q2 2015
TENURE	Freehold
USE	Office
PURCHASE PRICE	£62.55m
CAPITAL VALUE (psf)	£737
SIZE (sq ft)	84,843
NET INITIAL YIELD	3.00%



VALUE DRIVERS

CONNECTIVITY
PHYSICAL & VIRTUAL
(CROSSRAIL,
CROSSRAIL 2,
AIRPORTS)

CAPITAL
PRESERVATION
VS
INCOME
RETURNS

CBD
EXPANSION
(RIPPLE EFFECT)

ONE WORLD
(SPLIT CAPITAL
LONDON & NEW
YORK) - 196
COUNTRIES

HOUSING
MARKET

London and New York have topped the top five Global Cities for real estate investment for the last five years running, according to the Association of Foreign Investors in Real Estate (AFIRE), 2015



KEY POINTS

TRAVEL TIMES
+
BEST RETURNS

FARRINGDON
TO FOLLOW KING'S
CROSS AS A MAJOR
SUCCESS BASED ON
THE CROSSRAIL
AND CROSSRAIL 2
EXPECTATIONS

FRINGE AREAS
DOMINATE THE
TOTAL RETURN TABLE
OVER THREE YEARS
BUT CORE CONTINUES
TO REWARD

COMPOUND
RENTAL GROWTH
TO 2020:
CITY 2.00%
MIDTOWN 3.00%
WEST END 2.90%

OVERSEAS
INVESTORS
REMAIN
DOMINANT

65% COMPOUND
RETURNS OVER
THREE YEARS

RENTAL
GROWTH THE
MAIN DRIVER OF
TOTAL RETURN
THIS YEAR

LONDON,
NEW YORK ACT AS
CURRENT CAPITALS
OF THE WORLD BUT
CHINA IS EXPECTED
TO SIGNIFICANTLY
INCREASE ITS
IMPORTANCE

02

LONDON MARKETS ANALYSIS 2016: KEY FINDINGS

Colm Lauder

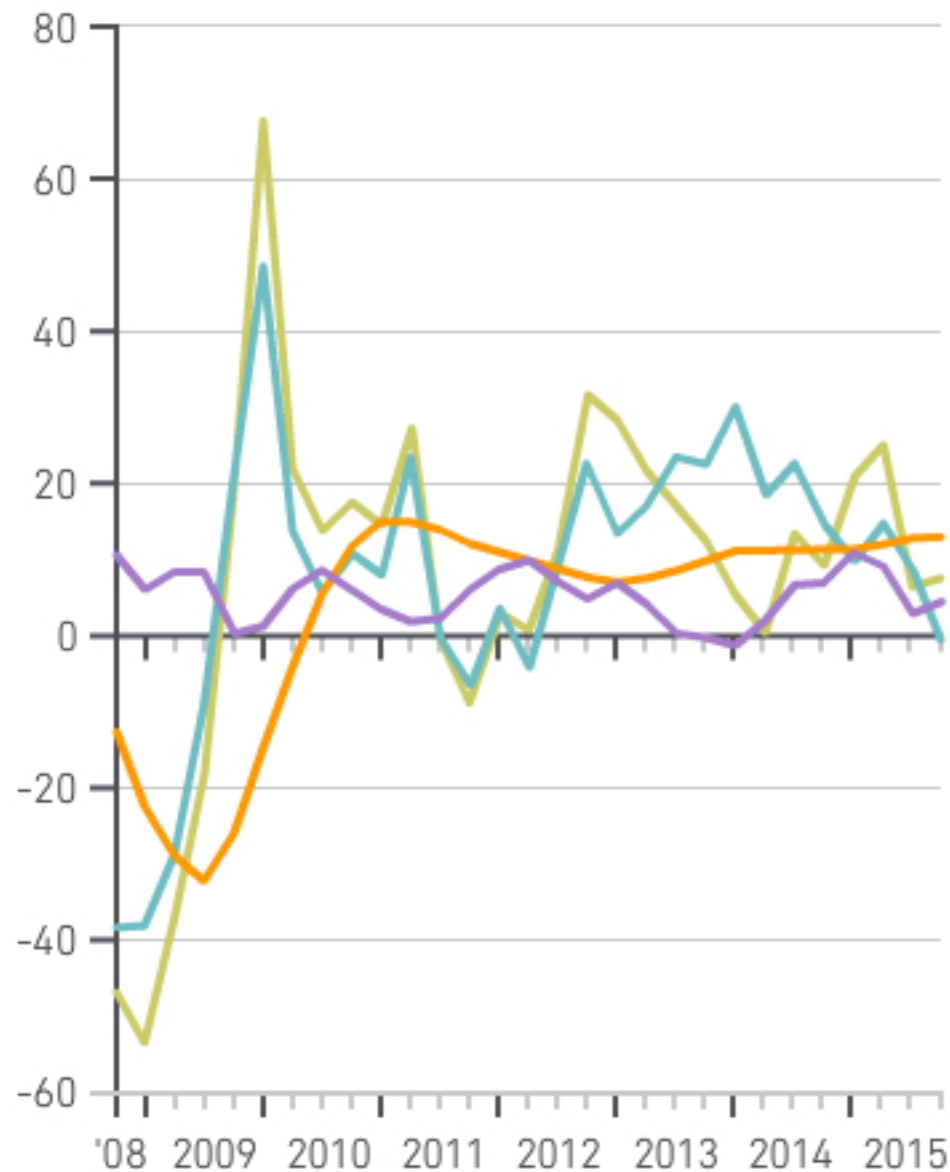
Vice-President, MSCI



MULTI-ASSET CLASS RETURNS

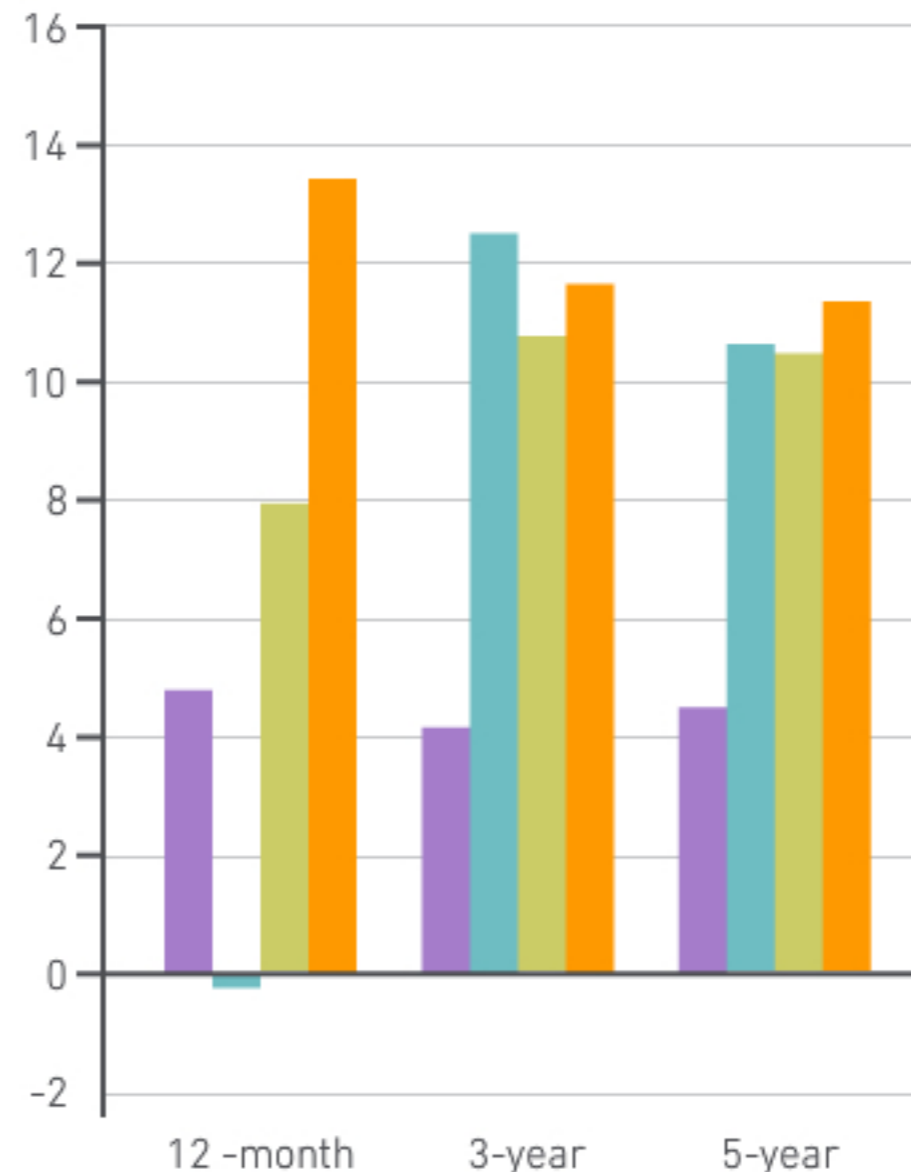
REAL ESTATE HAS OUTPERFORMED OTHER ASSET CLASSES SINCE THE GFC

HISTORICAL PERFORMANCE DEC 2008 - SEP 2015, %pa



— Bonds — Equities

TOTAL RETURN, ANNUALISED AS OF SEPTEMBER 2015, %



— Property equities — GPFI

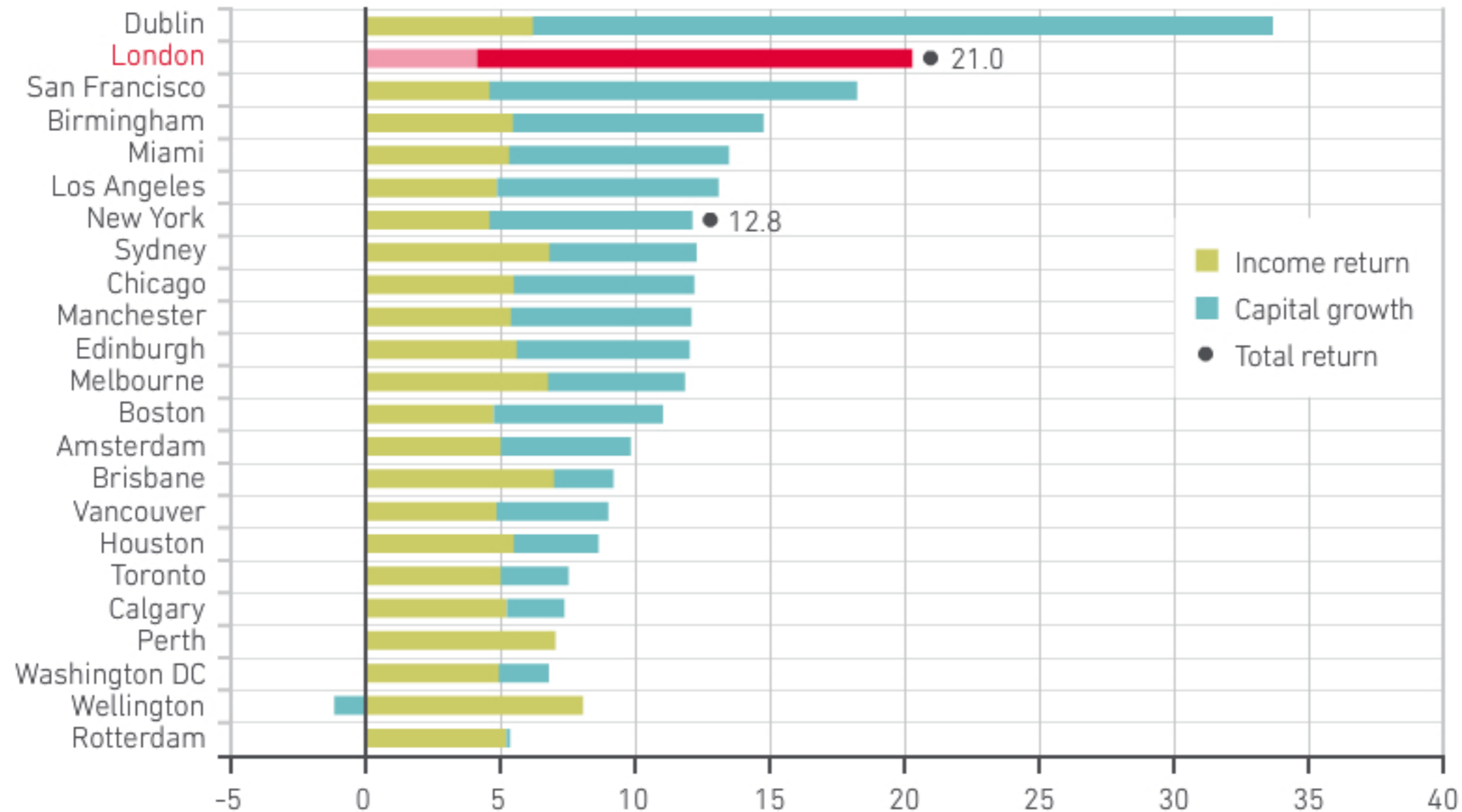
Note: GPFI is the IPD Global Property Fund Index

Source: MSCI



ALL PROPERTY ANNUALISED Q2 2015 TOTAL RETURN BY GLOBAL CITY
 AS OF Q2 2015, LONDON WAS STILL THE SECOND STRONGEST PERFORMING CITY GLOBALLY

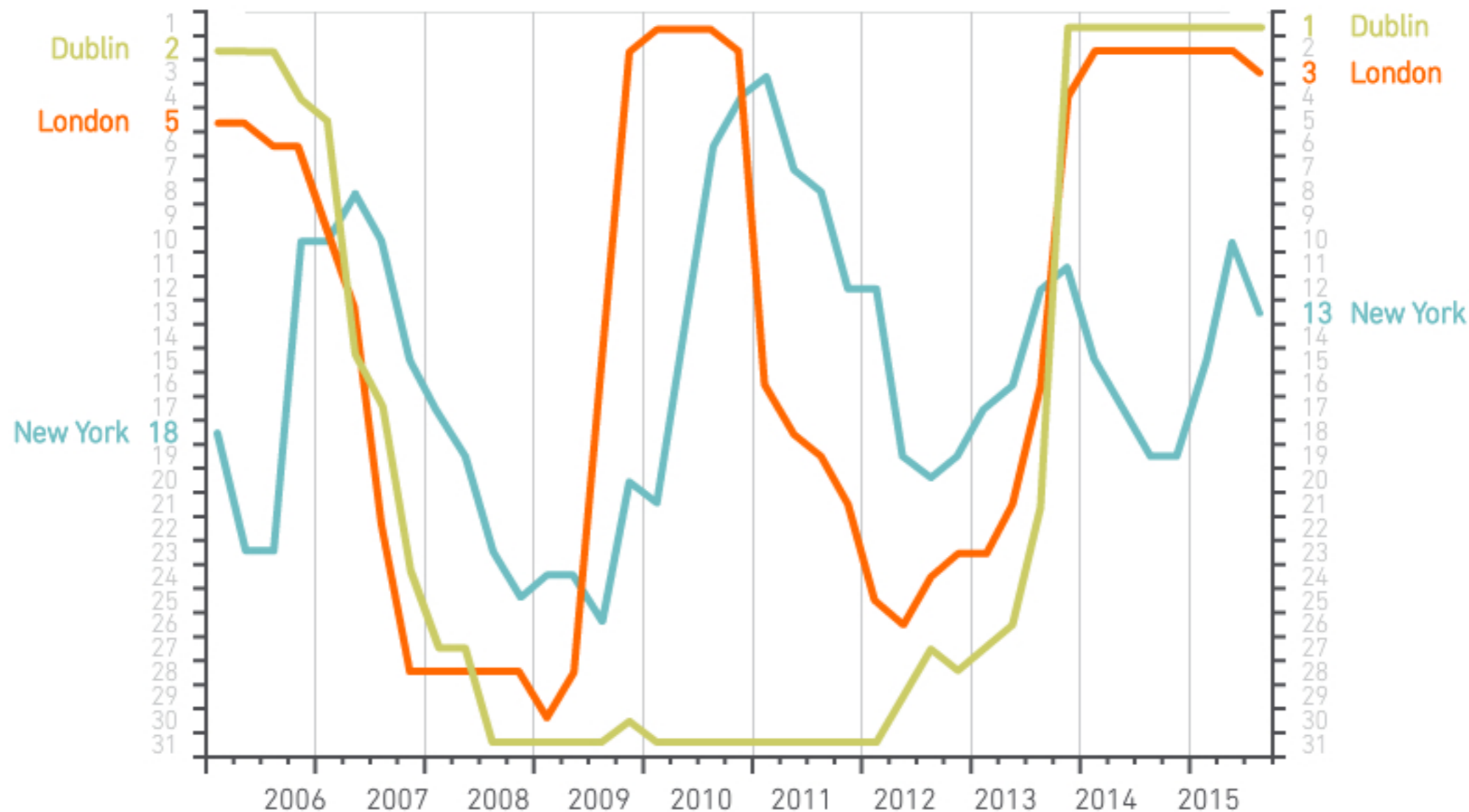
INCLUDING CONTRIBUTING COMPONENTS (IN LOCAL CURRENCY), % YEAR-ON-YEAR





ALL PROPERTY TOTAL RETURN RANKINGS FOR SELECTED GLOBAL CITIES SINCE Q1 2006
BUT THIS HASN'T ALWAYS BEEN THE CASE!

Q1 2006 - Q3 2015: RELATIVE GLOBAL RANKINGS SHIFT RAPIDLY WITH TIMING OF REGIONAL CYCLES

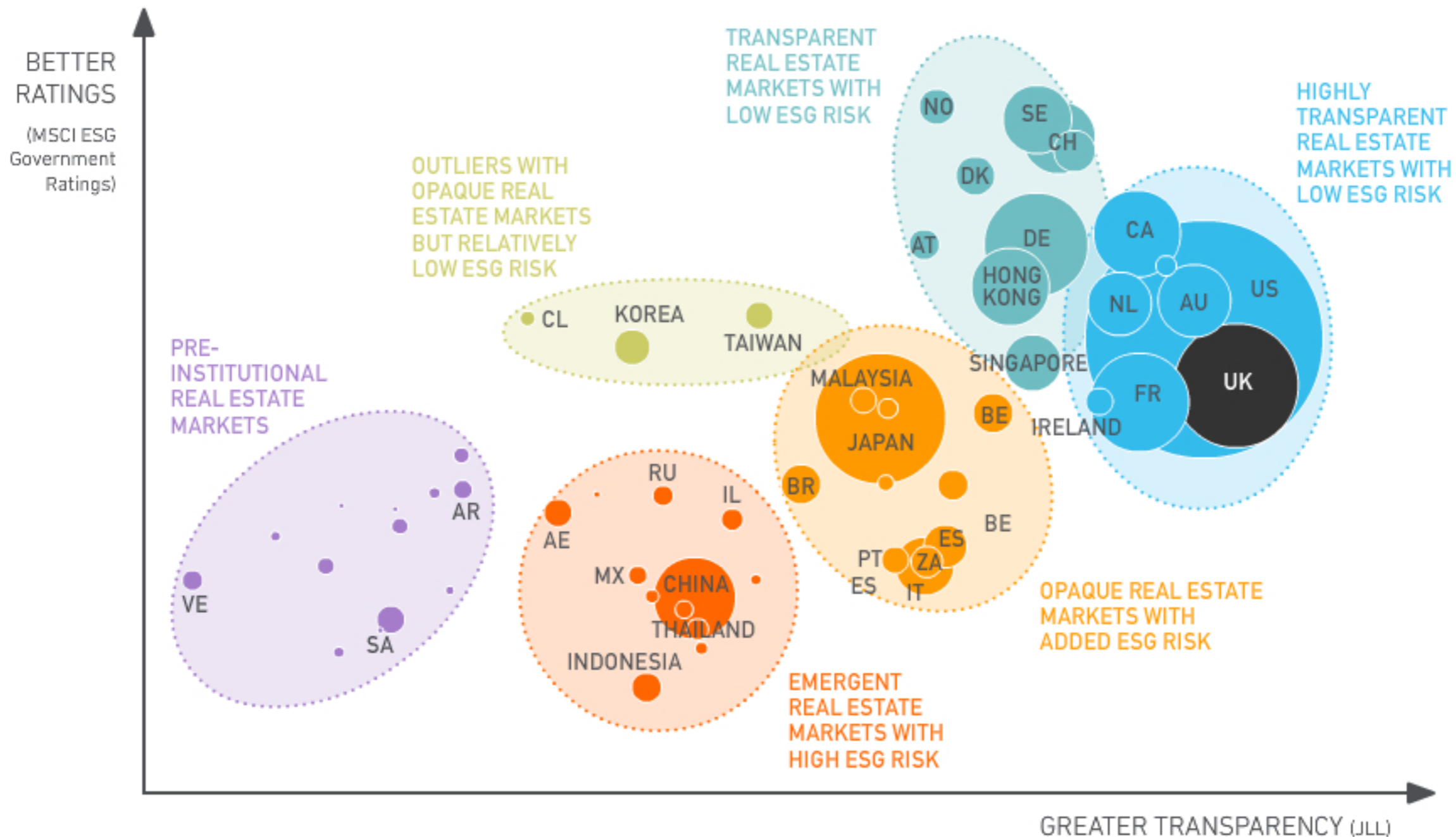


*Note: Based on annual samples through 2014. Results from higher frequency samples shown where available. Source: MSCI, KTI



MARKET TRANSPARENCY & GOVERNANCE

THE UK IS ONE OF THE WORLD'S MOST TRANSPARENT, AND LIQUID, REAL ESTATE MARKETS

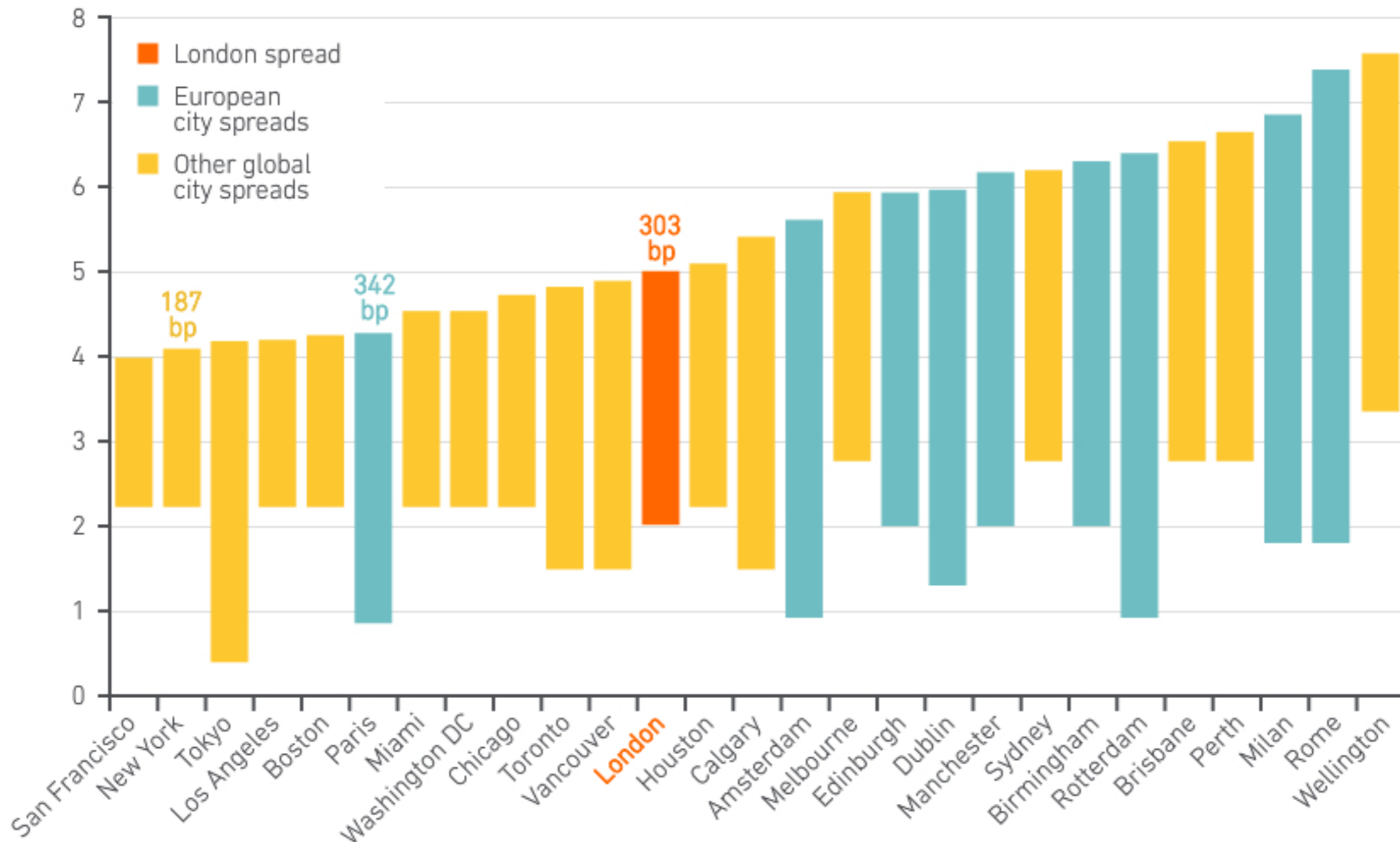


Note: Bubble size represents size of institutional real estate market. Source: MSCI, ESG Research, JLL



RELATIVE PRICING AT Q3 2015* FOR SELECTED GLOBAL CITIES
AND PRICING SPREADS REMAIN VERY WIDE

SPREAD BETWEEN ALL PROPERTY LOCAL YIELD & 10-YEAR NATIONAL BOND RATE, %



*Except Paris, Milan, Rome & Tokyo which are Q2 2015. Source: MSCI, OECD

Note: All property yields shown here follow local market conventions and practices and may not necessarily be consistent across all markets

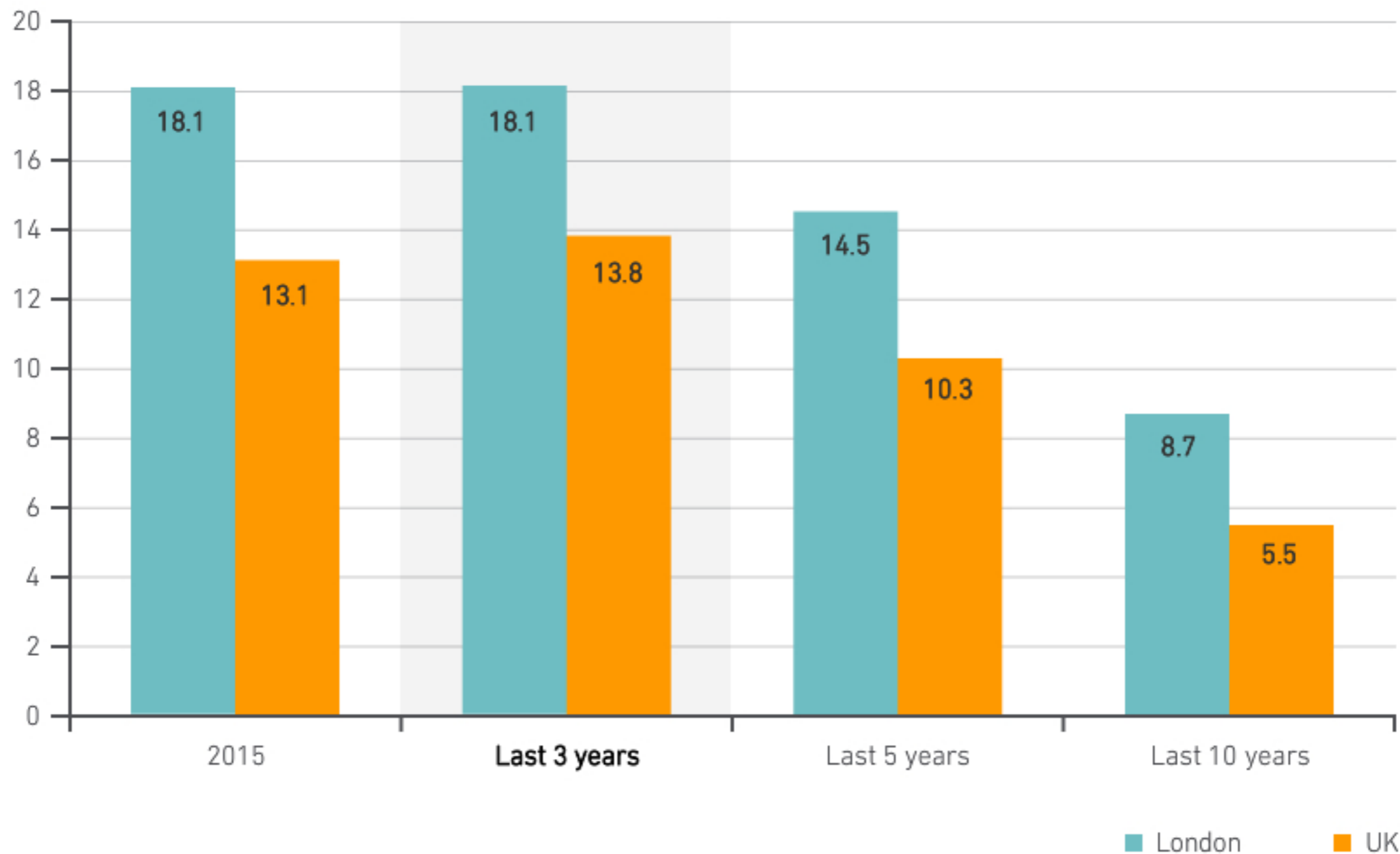
LONDON IN DETAIL: SUBMARKET PERFORMANCE



HOW DID LONDON PERFORM IN 2015?

ANNUALISED TOTAL RETURN

ALL PROPERTY, % YEAR-ON-YEAR





LONDON MARKET DRIVERS OF TOTAL RETURN: 2001-2015
LONDON HAS HAD THREE STRONG YEARS AS THE CYCLE MOVED FROM RECOVERY TO GROWTH

% QUARTER-ON-QUARTER

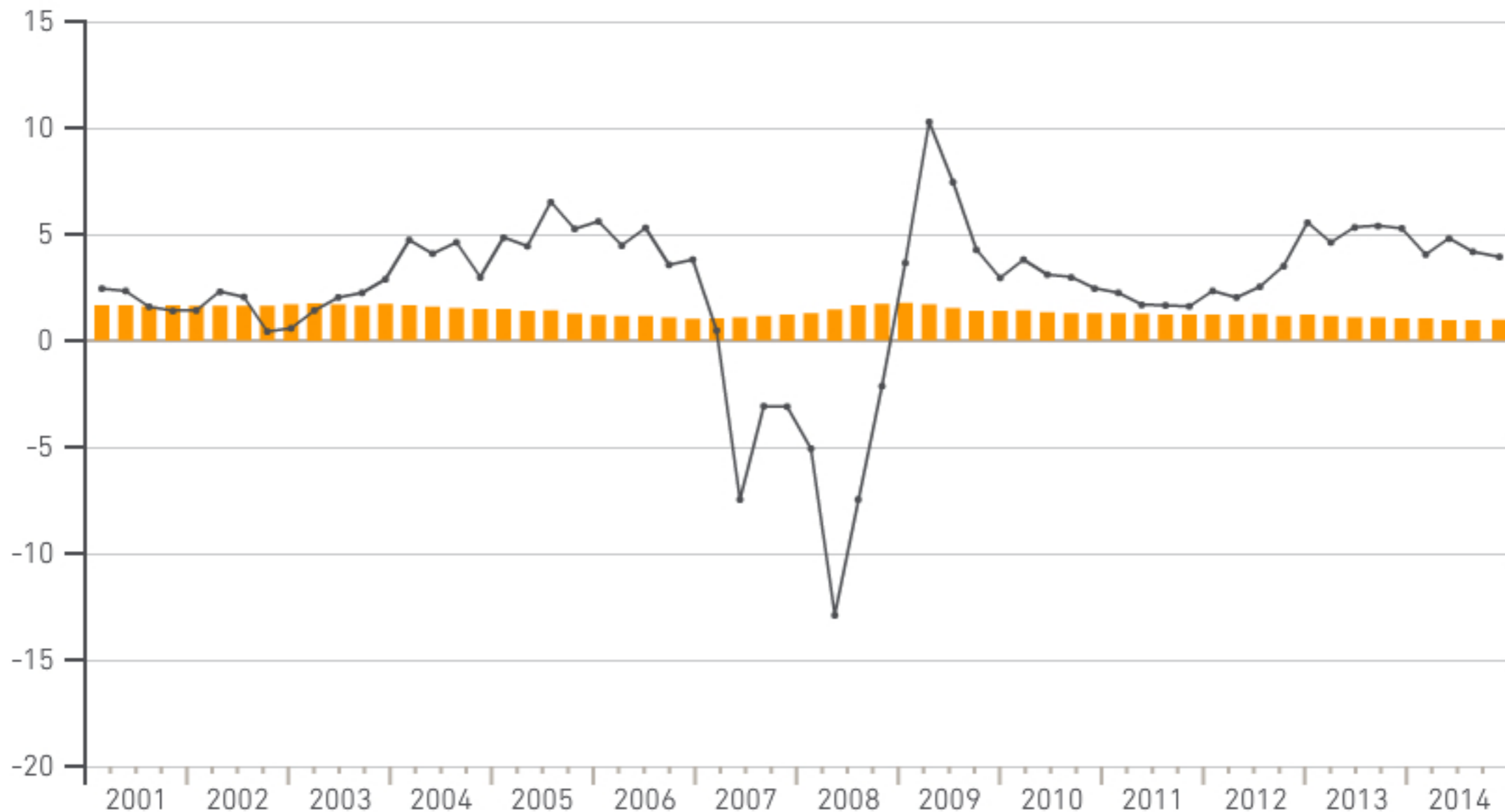


■ Rental value growth ■ Yield impact ■ Income return ● Total return



LONDON MARKET DRIVERS OF TOTAL RETURN: 2001-2015
INCOME HAS STABILISED AS BUSINESS CONDITIONS IMPROVED ACROSS THE UK

% QUARTER-ON-QUARTER



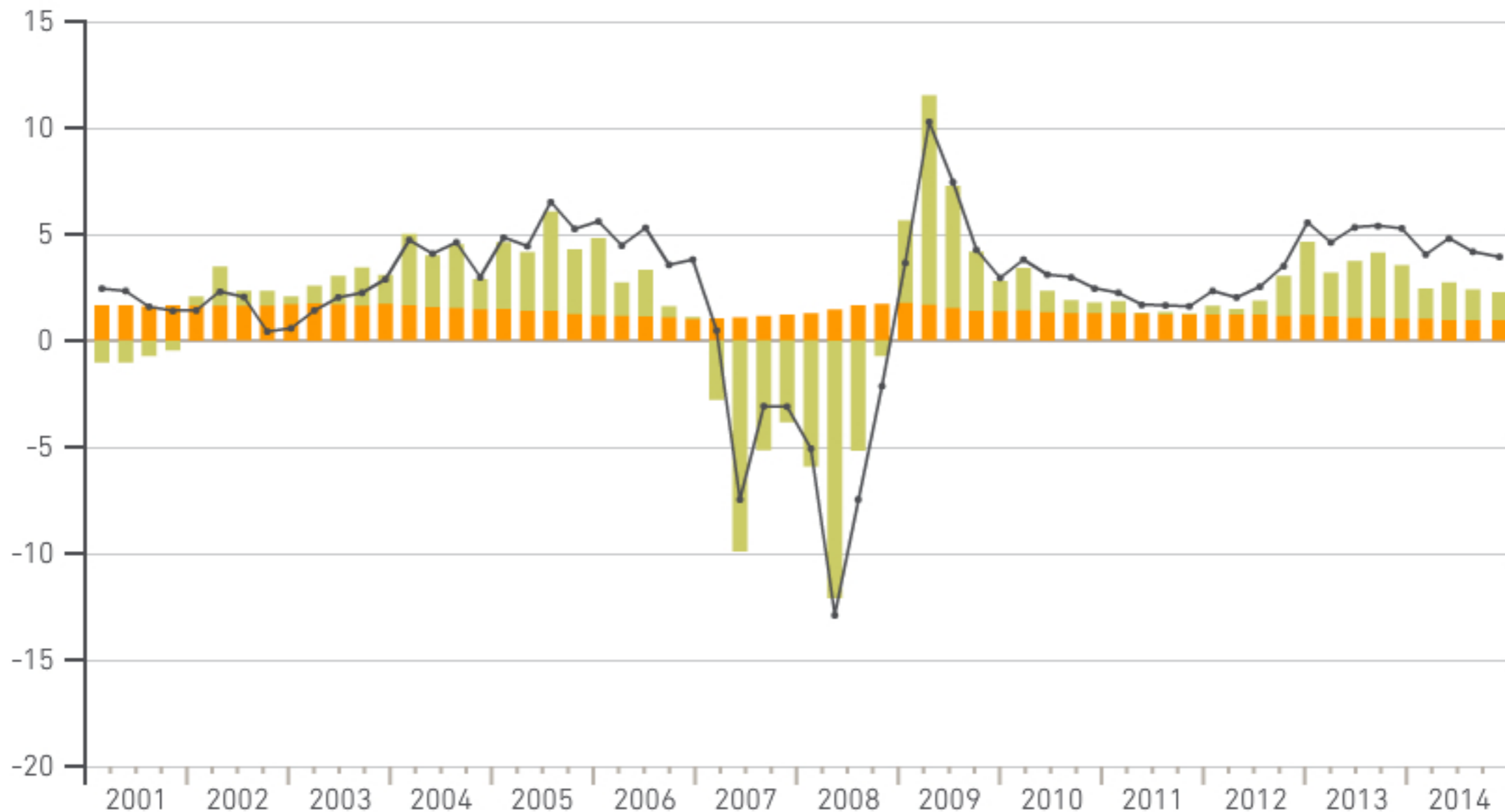
■ Rental value growth ■ Yield impact ■ Income return ● Total return



LONDON MARKET DRIVERS OF TOTAL RETURN: 2001-2015

INVESTOR DEMAND DROVE PRICING EARLY ON, AND CONTINUED TO IMPACT VALUE GROWTH

% QUARTER-ON-QUARTER

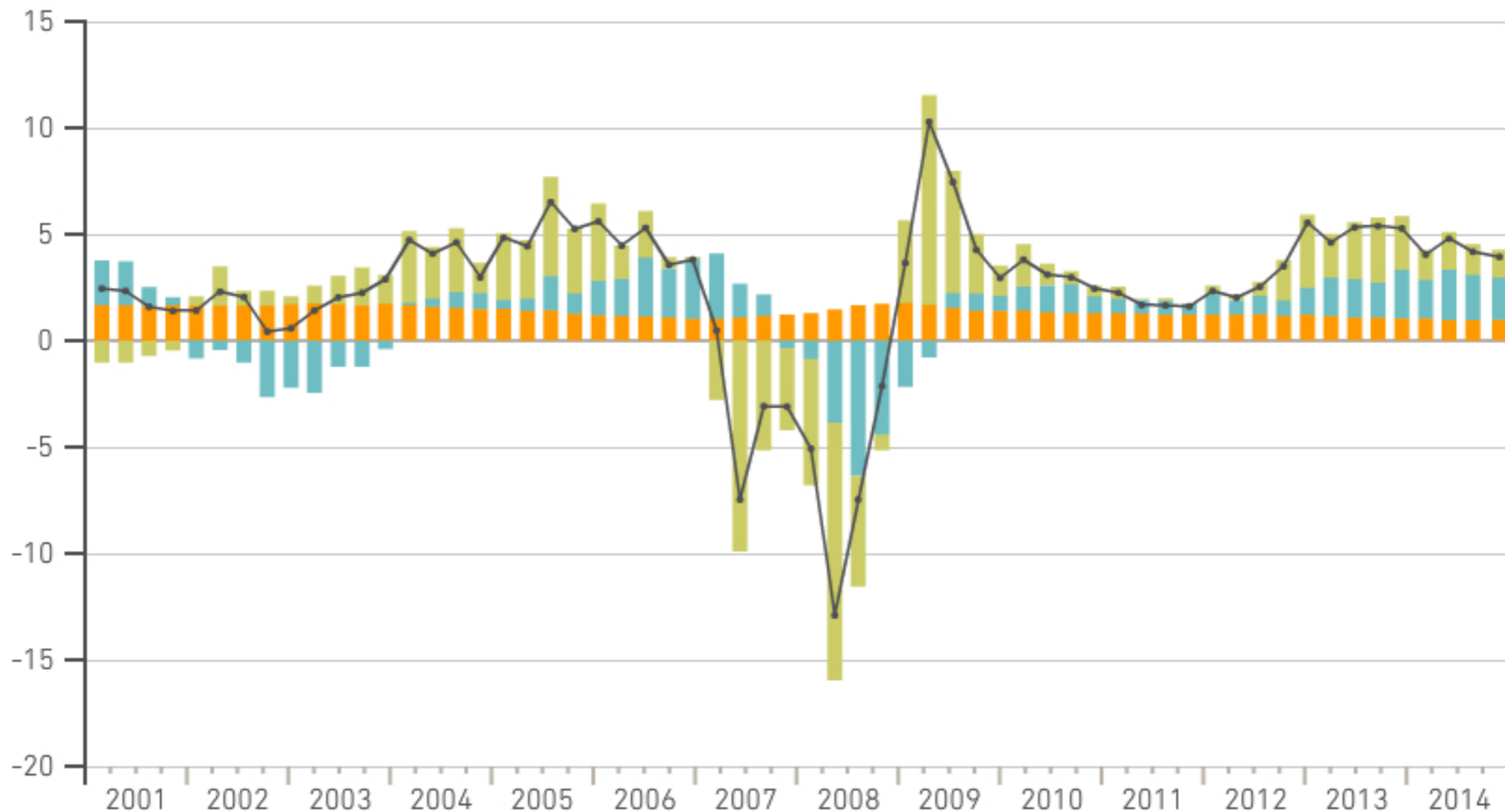


Rental value growth Yield impact Income return Total return



LONDON MARKET DRIVERS OF TOTAL RETURN: 2001-2015
BUT NOW RENTAL GROWTH IS THE KEY FOCUS OF PERFORMANCE AS OCCUPIER DEMAND SURGES

% QUARTER-ON-QUARTER

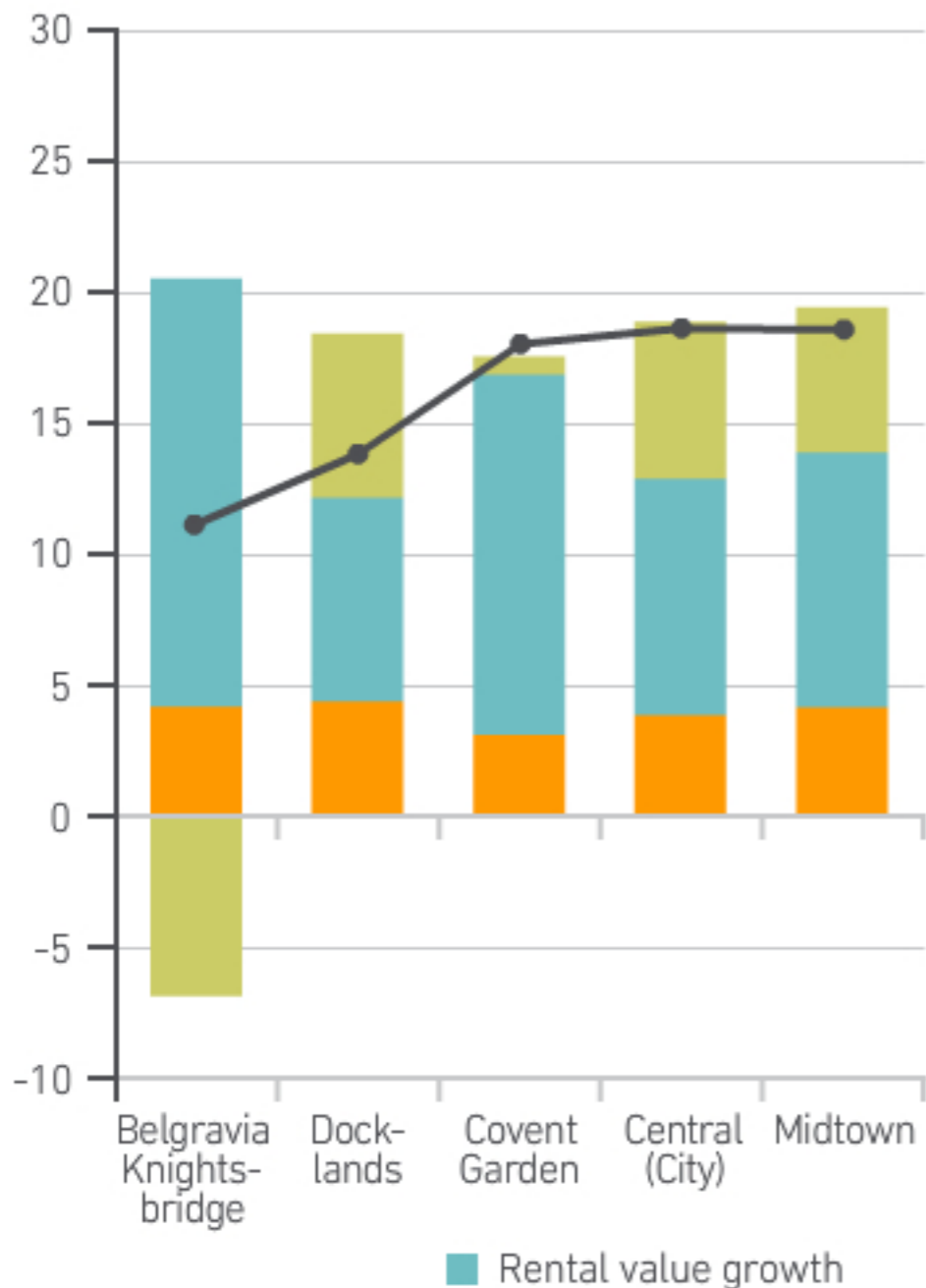


■ Rental value growth ■ Yield impact ■ Income return ● Total return

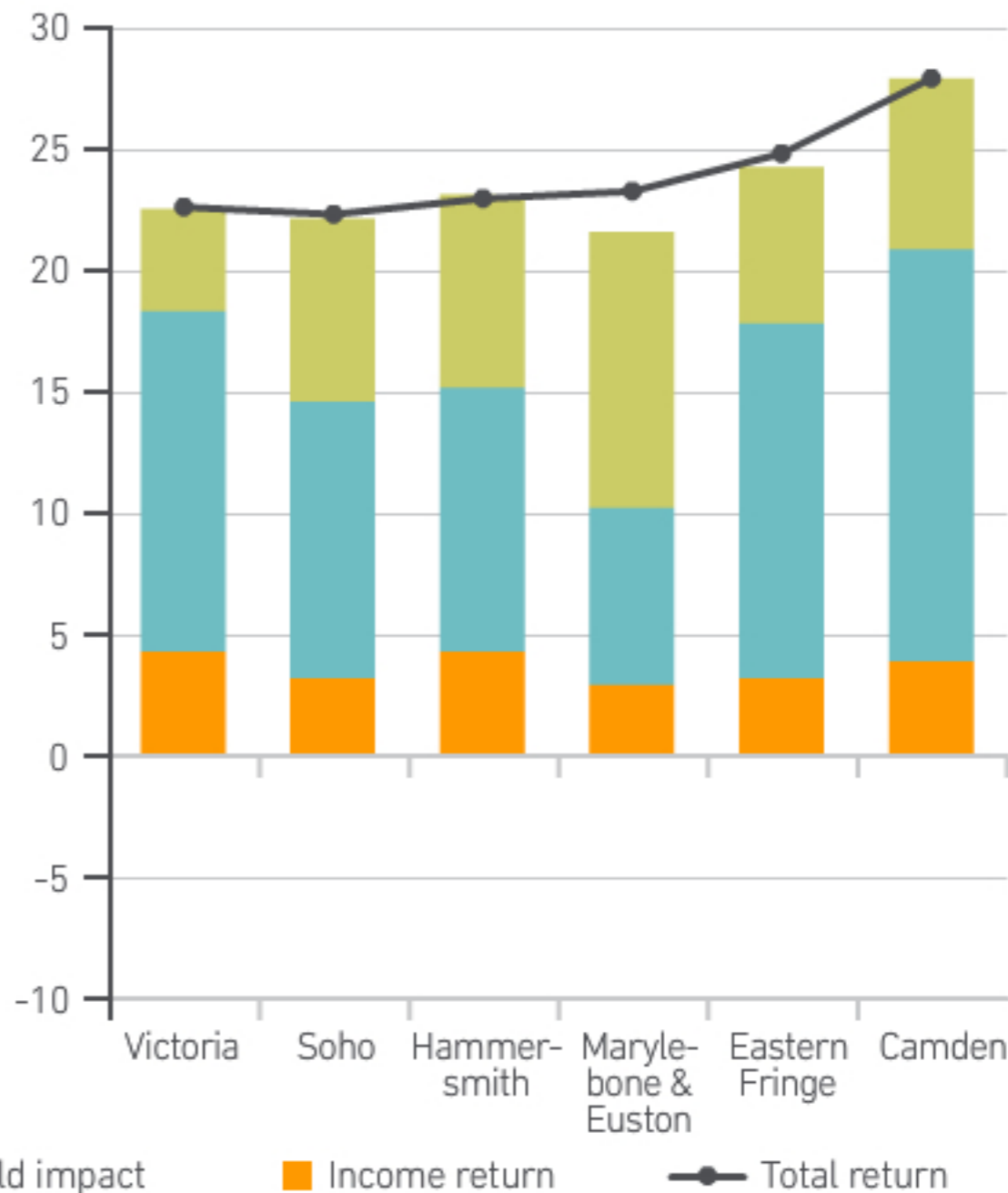


HOW TO OUTPERFORM IN 2015

BOTTOM FIVE MARKETS IN 2015, % YEAR-ON-YEAR



TOP FIVE MARKETS IN 2015, % YEAR-ON-YEAR





LEADING LONDON INVESTMENT MARKETS

FRINGE DOMINATES TOTAL RETURN TABLE OVER LAST THREE YEARS, BUT CORE CONTINUES TO REWARD

TOTAL RETURN:

% YEAR-ON-YEAR

% QUARTER-BY-QUARTER



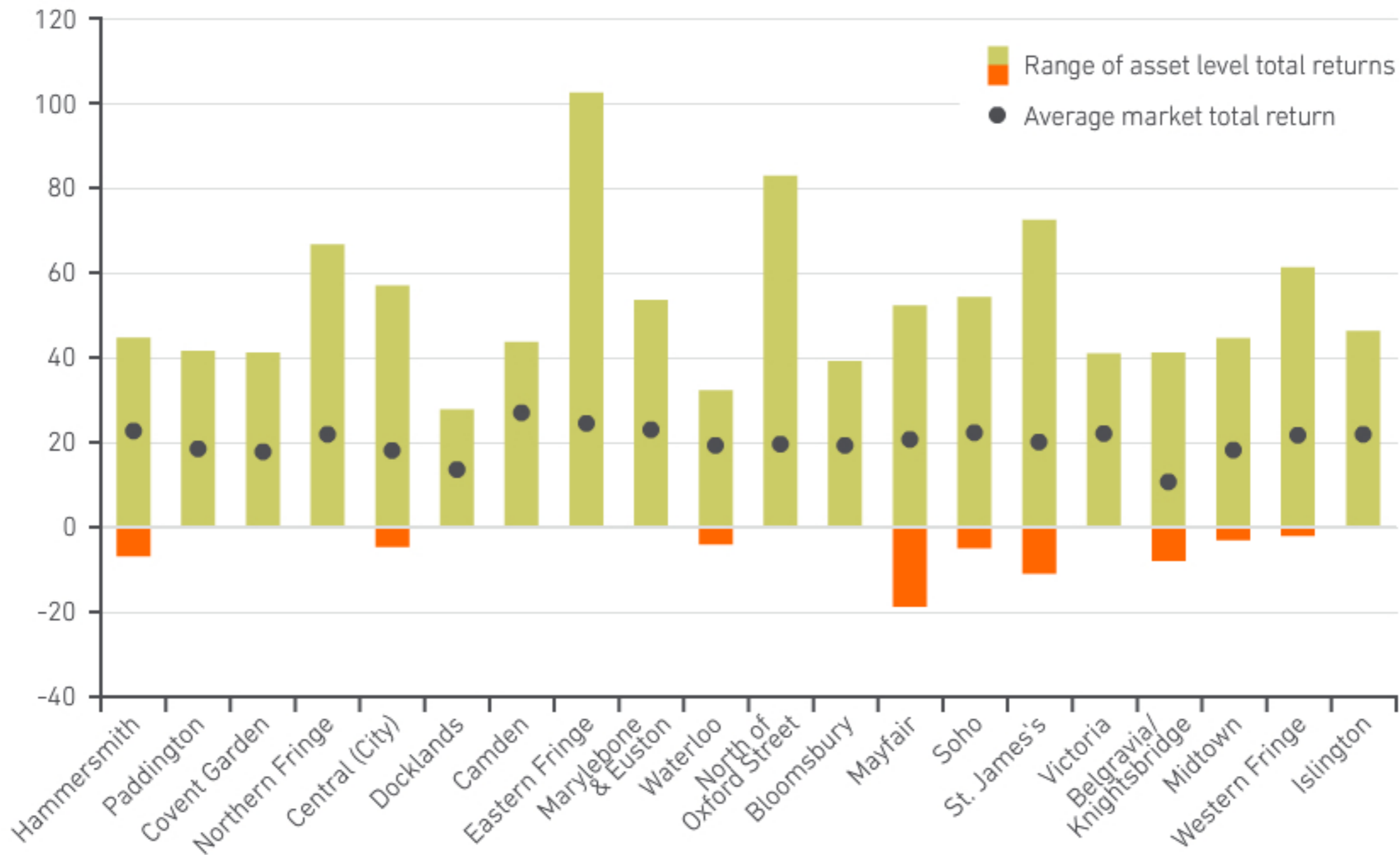
3 years to Dec 2015 1 year to Dec 2015



RANGE OF ASSET LEVEL TOTAL RETURNS

BUT EVEN WITHIN WEAKER PERFORMING MARKETS ASSET SPECIFICS HAVE REWARDED INVESTORS

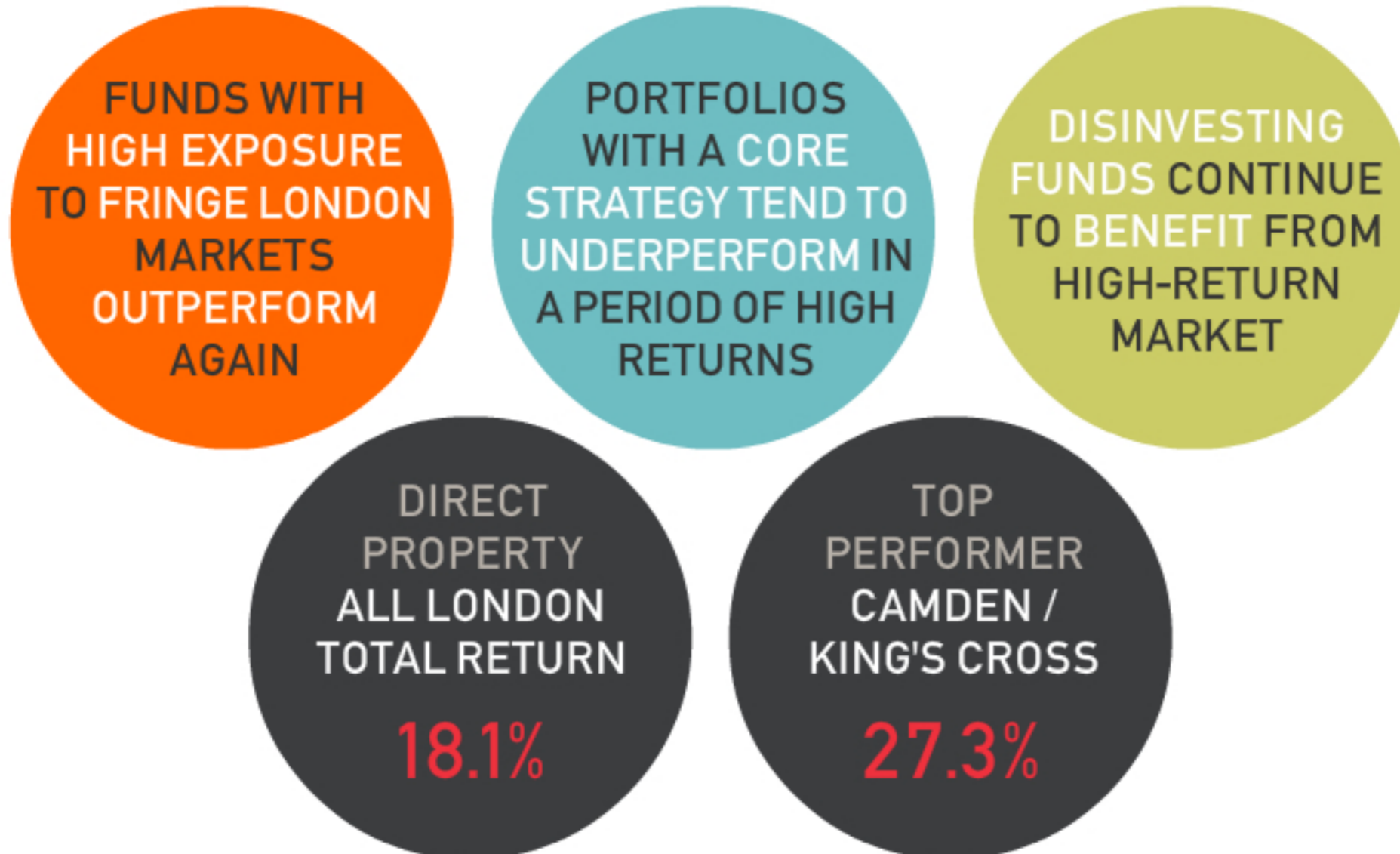
% YEAR-ON-YEAR IN 2015



Source: MSCI



KEY TAKEAWAYS



msci.com

CONCLUSION

DISCUSSION

THE 2016 LONDON MARKETS ANALYSIS REPORT IS GRATEFUL FOR THE SUPPORT OF:



THE LONDON MARKETS ANALYSIS

WWW.LMA2016.COM