



Your success. Our priority.

Property

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For professional investors only

June 2018



Learning objectives

1

Gain insights into the current UK commercial property market

2

Understand our outlook for property and investment philosophy



Your success. Our priority.

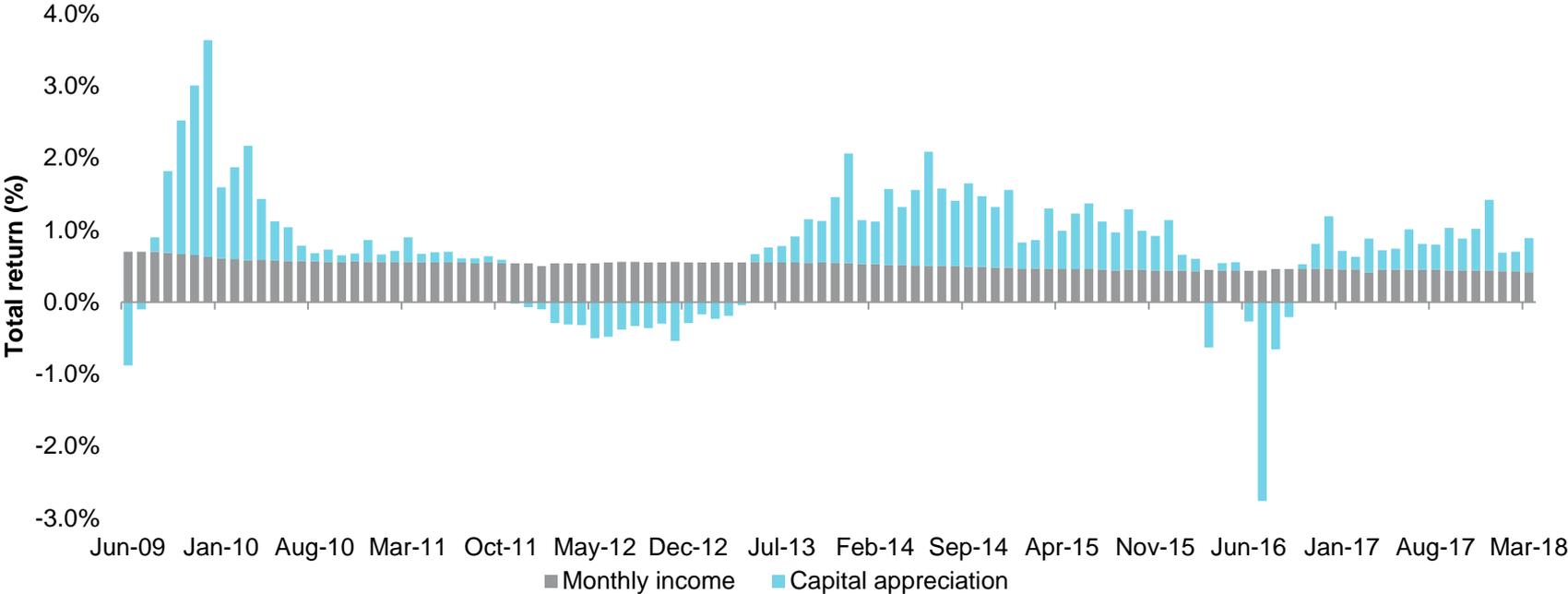
UK commercial property market



UK commercial property

Recent market context

MSCI UK Monthly Index total returns

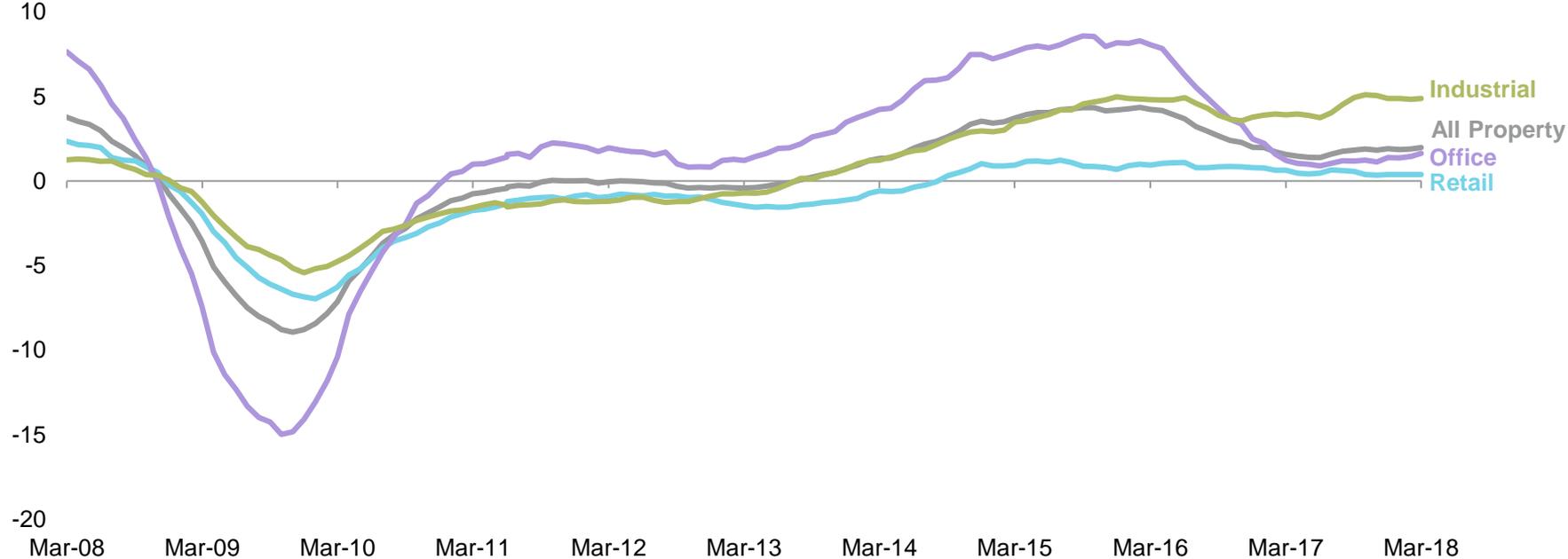


Source: MSCI UK Monthly Index, as at 31 March 2018

UK commercial property

Recent market context

MSCI UK commercial property rental value growth – Annual %



Source: MSCI, as at 31 March 2018

UK commercial property

Recent market context

UK Property market performance – 12 months to end March 2018

	Retail	Office	Industrial	All Property
Total return	7.1%	8.6%	21.6%	11.3%
Income return	6.0%	4.8%	5.4%	5.4%
Capital growth	1.0%	3.6%	15.5%	5.6%
Rental value growth	0.4%	1.6%	4.9%	2.0%
Yield impact	1.6%	2.4%	11.0%	4.3%

Industrials / logistics

- Demand surge from online retailing
- Low vacancy rate and modest development pipeline
- Rise in build costs
- Competing land uses, particularly in South-East
- Relative re-pricing

High street retail

- Revolution in retailing formats and behaviours
- Widespread collapse in rental values
- Structural change
- Accelerating retailer distress
- Some winners within retail hierarchy

Retail warehousing

- Less threatened by internet
- Favoured by retailers and shoppers alike
- Preference for discount style schemes in distinct catchments
- Ongoing expansion of discount retailers
- Some threat from supermarket overcapacity



Offices – rest of UK

- South-East and provincial markets have skipped a development cycle
- Large scale impact of residential conversion
- Rental levels not exceptional
- Centre specific dynamics

Offices – central London

- Rents at all time highs, yields at all time lows
- Major development pipeline
- Particular Brexit sensitivities
- Highly internationalised market

UK commercial property

Outlook in an uncertain political landscape

- Overall vacancy rate relatively low – development response now likely to be more muted
- No Brexit exodus evident yet
- Significant equity seeking exposure to UK market
- Ongoing appeal to asset allocators
- Not over leveraged
- Total returns converging to income return

Investment philosophy

We believe...

A preference for high yielding investments

- Income returns dominate total returns in the long-term

Flexible buyers rather than buyers of 'trophy' assets

- 'Trophy' investments at the keenest yields are very demanding on consistent rental value growth and therefore tend to underperform

Active property management is integral

- Intensive asset management of individual property investments creates and protects value and income

Emphasis on stock picking

- Good stock picking is an essential part of strategy implementation*

Avoid speculative development

- High risk activity. We prefer standing investments, and refurbishments are undertaken as a low risk method of enhancing latent value

*Stock picking refers to the physical property selection process.

Learning outcomes

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Important information

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