

PORTFOLIO INVESTMENT MARKET

Autumn 2018



PORTFOLIO INVESTMENT BULLETIN

2018* by numbers

£6.24bn

UK direct real estate portfolio transactions in 2018 (YTD) **

32%

increase in transactions compared to the same period in 2017

52

portfolio deals sold to 43 separate investors

85%

of business space portfolios transacted off-market / restricted marketing

£120m

average lot size. £76m excluding Alternative Sector Portfolios

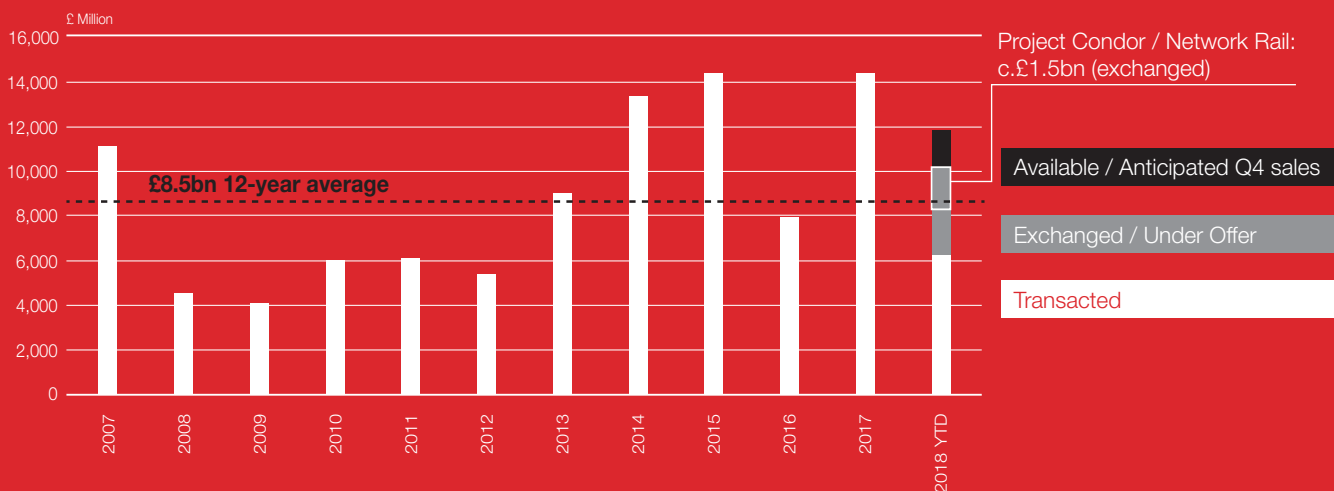
22

industrial portfolio transactions

* to September 2018

** excludes Project Condor (c.£1.5bn) due to complete later this year

Annual Transaction Volumes



Key themes



High transaction volumes

The momentum in the portfolio market has continued from the record year of 2017 (where £14.4bn was transacted). To date, 2018 has seen £6.24bn of portfolio transaction volumes across all sectors with 52 deals recorded, an increase of 32% compared to the same period in 2017 and above the long term average.



Divergence between sectors

It is difficult to talk about the portfolio market in general terms as investor demand is fragmented by sector and quality. The headlines mask the disparity between the industrial and alternative sectors which have been extremely active on the one hand and the retail and mixed portfolio sectors, where transaction volumes are at an all-time low.



Alternative sector dominates

A total of £3.81bn, or 61% of the total volume, was transacted in the alternative portfolio market in 2018 to date making it the dominant sector for the past four years. The sector sees the largest individual transactions with four deals over £350m with an average lot size across the sector of £190m.



Industrial sees record activity

Investor appetite for industrial portfolios has accelerated over the past 12 months as investors continue to be attracted by strong fundamentals that this sector offers. In total £1.63bn was transacted over 21 portfolios – more than double the number of transactions compared to the same period last year. There is depth in investor interest across all risk types: development, value add, core plus and core opportunities.



The importance of portfolio composition

During 2017 and H1 2018, 1 in 5 business space portfolios were either withdrawn, broken up or cherry picked. This highlights the importance of creating a liquid selection of assets from the beginning and carrying out sufficient pre-marketing due diligence.



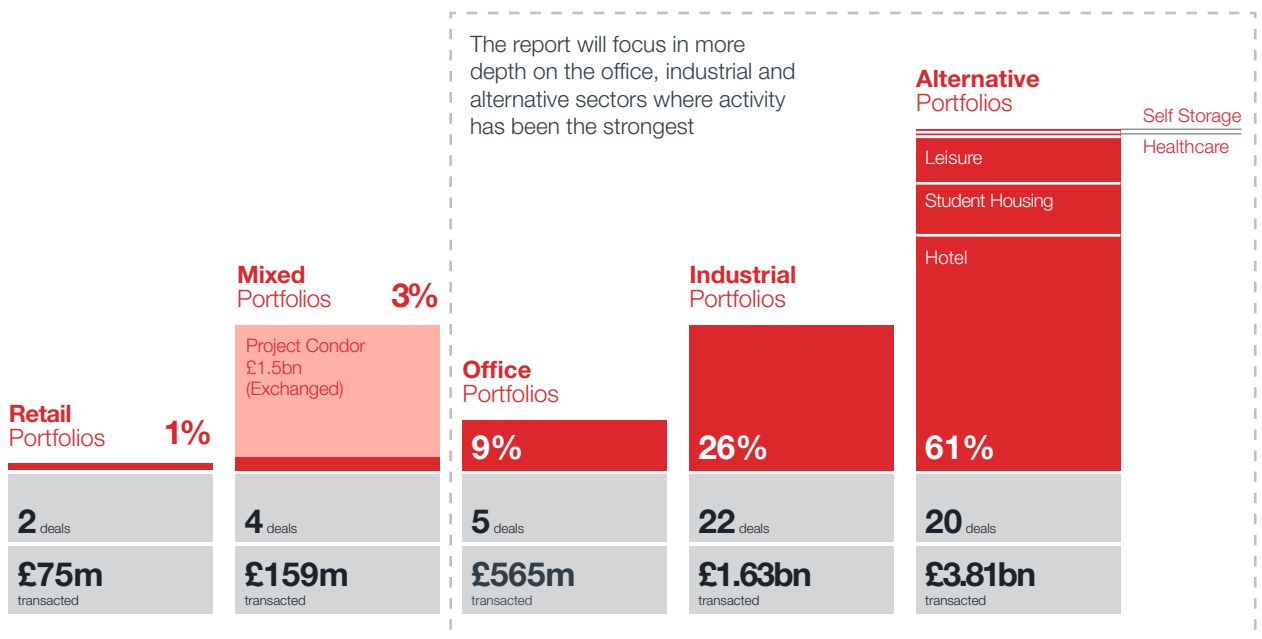
2018 very quiet for listed activity

Buying activity in 2018 to date by listed entities is down 50% compared to the same period last year. 2017 was the year of the listed sector with c.£3bn raised from both IPOs and equity raises and was second largest buyer type of portfolios (after private equity) accounting for 20% of the buyer market. Eight listed entities used portfolio transactions as a 'seed' for an IPO and successfully list on the stock market or as a means to grow GAV through the issuance of shares across 25 deals. We expect an increase in listed activity into 2019 but conversely see more corporate M&A and public to private deals driven by pressures that go hand in hand with sizeable discount to NAVs for certain entities.



Prevalence of restricted or off market transactions

Four in every five business space portfolio deals were either transacted off-market or via restrictive marketing campaigns. This compares to just 25% of deals in 2015 and 50% in 2016. This is due to fewer 'one-off buyers' in the market compared to 2015/16 where the eventual buyer could have been one of a dozen new entrants. In certain sectors, the buyer universe is now well defined enabling a more targeted and efficient marketing strategy. This is particularly evident in the office sector where all but one transaction was either off market or via restricted marketing.



OFFICE PORTFOLIOS

2018 YTD by numbers

£565m

total office portfolio volumes (YTD 18). + £500m currently under offer.

9%

increase on the same period last year at £516m

5

separate portfolio transactions

£113m

average lot size

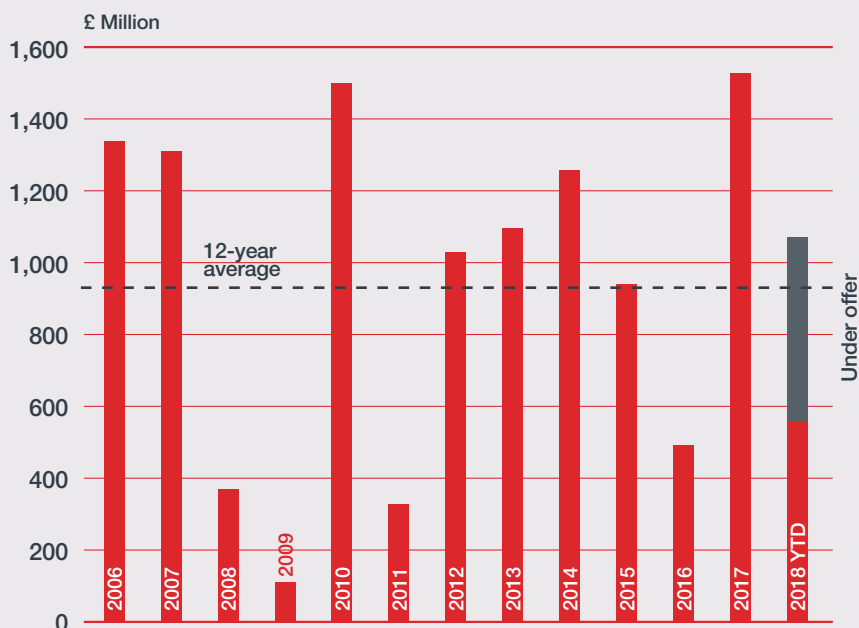
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separate investors

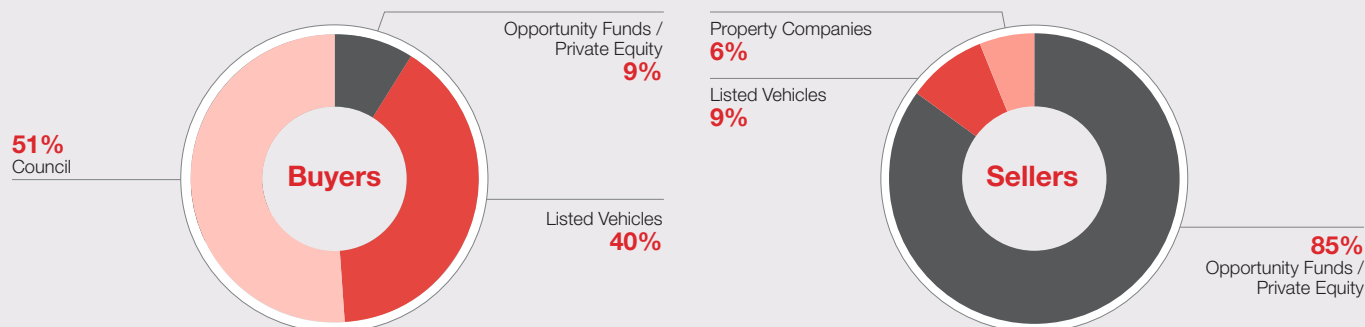
9%

of the total portfolio market

Office portfolio volumes (2006-2018 YTD)



Buyers and sellers



Key deals

Portfolio	Properties	(Price £m)	(Yield %)	Vendor	Purchaser	Date
352 Portfolio	5	Q:£86m	Q:6.04%	BMO Real Estate Partners	On Market	Available
Hayhill Portfolio	98	Q:280m	Q:7.81%	Telereal Trillium	Under Offer	Under Offer
Equinox Portfolio	12	£140m	7.00%	AEW Europe	Ares	Oct-18
Skylar Portfolio *	8	£31.4m	8.47%	M7 Real Estate	Regional REIT	Aug-18
Brockton / Landid SE Office	3	£285m		Brockton / Landid	Spelthorne Borough Council	Aug-18
Acute Portfolio	3	£51.9m	4.00%	Workspace Group Plc	Westbrook Partners	Jul-18
Project Knight *	6	£35.2m	8.40%	Kildare Partners / Curzon	Regional REIT	Jun-18
Project Eureka *	17	£44.5m	8.16%	Oaktree Capital / M7 Real Estate	Regional REIT	Dec-17
NW Portfolio	3	£44.3m		NW UK III	Regional REIT	Dec-17

* Gerald Eve advised

INDUSTRIAL PORTFOLIOS

2018 YTD by numbers

£1.63bn

total industrial portfolio volumes (YTD'18) + £790m currently under offer

38%

increase on the same period last year at £1.18bn

22

separate portfolio transactions

£78m

average lot size

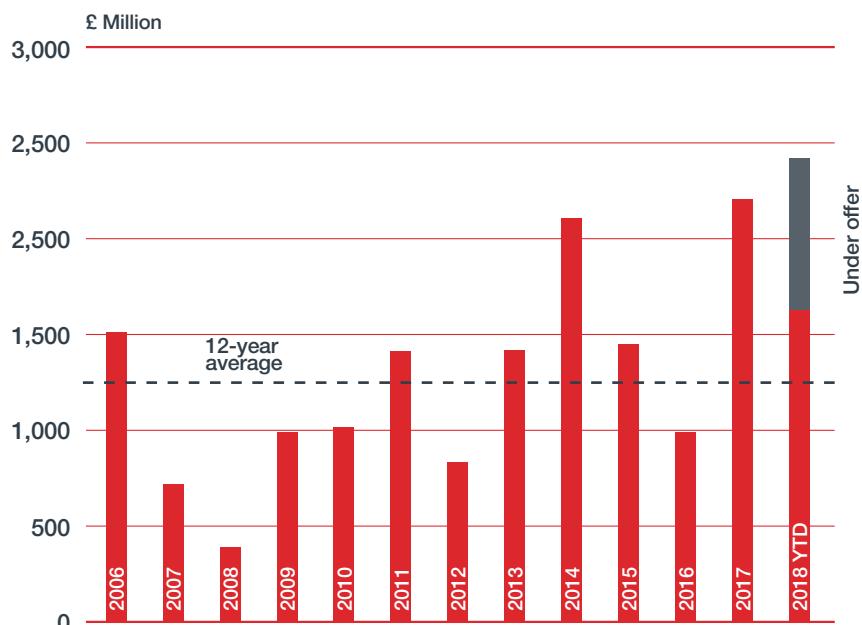
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separate investors

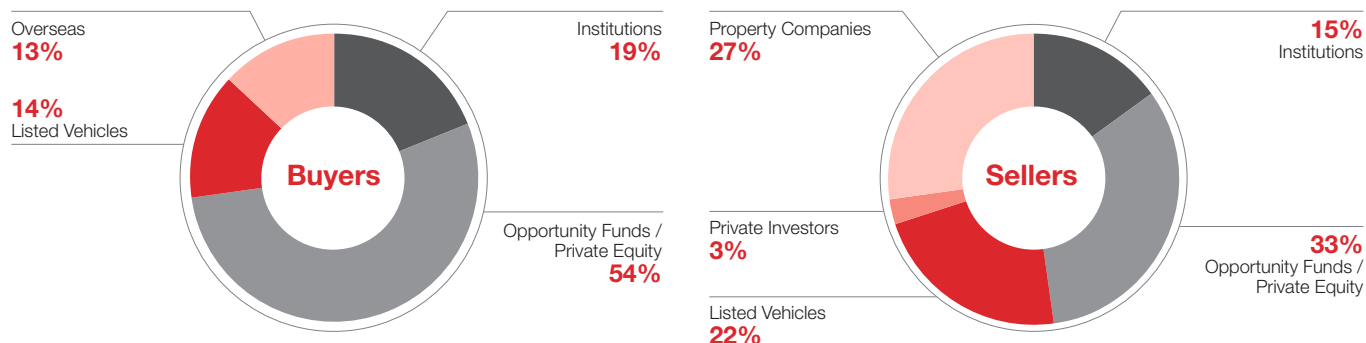
26%

of the total portfolio market

Industrial portfolio volumes (2006-2018 YTD)



Buyers and sellers



Key deals

Portfolio	Properties	(Price £m)	(Yield %)	Vendor	Purchaser	Date
Lighthouse Portfolio *	9	Q:£55m	Q:6.00%	IOAM	Marketing (Gerald Eve)	Oct-18
Beacon Portfolio *	21	Q:85m	Q:6.75%	IOAM	Marketing (Gerald Eve)	Oct-18
R32 Portfolio	32	Q:£100m	Q:6.65%	Revelan / Ares	Under Offer	Under Offer
Iron Portfolio	7	£111.0m	5.41%	Leftfield Capital	Liberty Property Trust	Oct-18
Mitre Portfolio *	5	£17.90m	4.30%	Milton Group	Leftfield Capital	Oct-18
Cedar Portfolio	12	£39.9m	5.86%	CBRE Global Investors	Kames Capital	Sep-18
M Portfolio	6	£61.5m	6.30%	Commercial Estates Group	Blackstone / M7	Aug-18
OWL Portfolio	12	£207m	5.32%	Oxenwood Real Estate / Catalina Holdings	Ascendas REIT	Aug-18
Platinum Portfolio	10	£55m	4.40%	ACT Foundation	LondonMetric Property Plc	Jun-18
Column Portfolio	51	£107m	6.95%	M7 Real Estate	Blackstone / M7 Real Estate	Mar-18
Bluebell Portfolio *	15	£39m	6.97%	Regional REIT	Blackstone / M7 Real Estate	Jun-18
Atlas Portfolio	8	£62.2m	4.24%	CBRE Global Investors	KFIM & Schroders	Jun-18
Moorfield Portfolio *	4	£42.5m	4.95%	Moorfield Group	Confidential	Apr-18
Sterling Portfolio	28	£162m	6.75%	Mansford	Westbrook Partners	Apr-18
Pebble Portfolio *	5	£22m	6.00%	Aviva Investors	M&G Real Estate	Apr-18
Magnvs Portfolio	20	£150m	6.41%	Helical Bar Plc	Blackstone / M7 Real Estate	Mar-18
Powerhouse Portfolio	40	£320m	6.30%	InfraRed Capital Partners	Blackstone / M7 Real Estate	Feb-18

* Gerald Eve advised

ALTERNATIVE PORTFOLIOS

2018 YTD by numbers

£3.81bn

total alternative portfolio volumes (YTD'18)

9%

increase on the same period last year at £3.5bn

20

separate portfolio transactions

£190m

average lot size

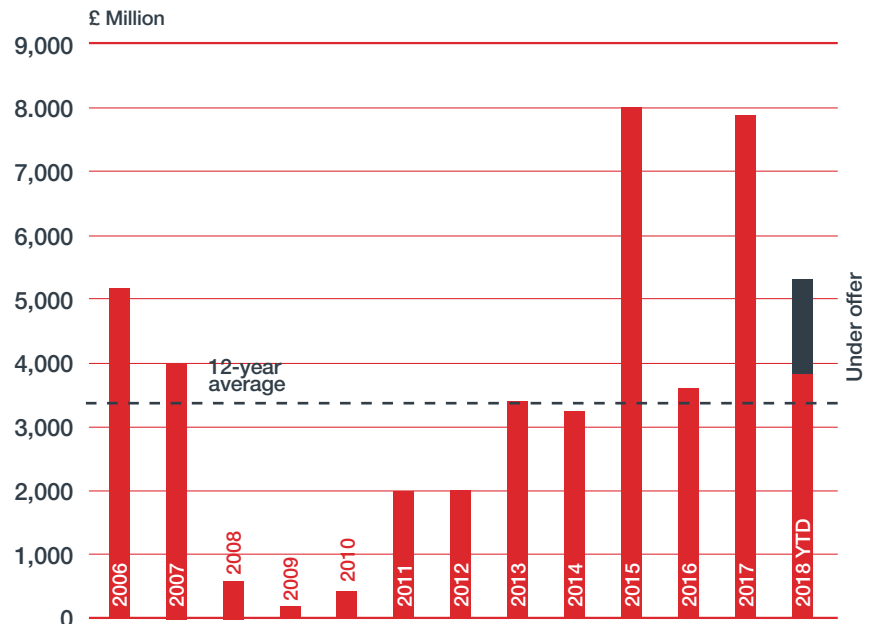
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separate investors

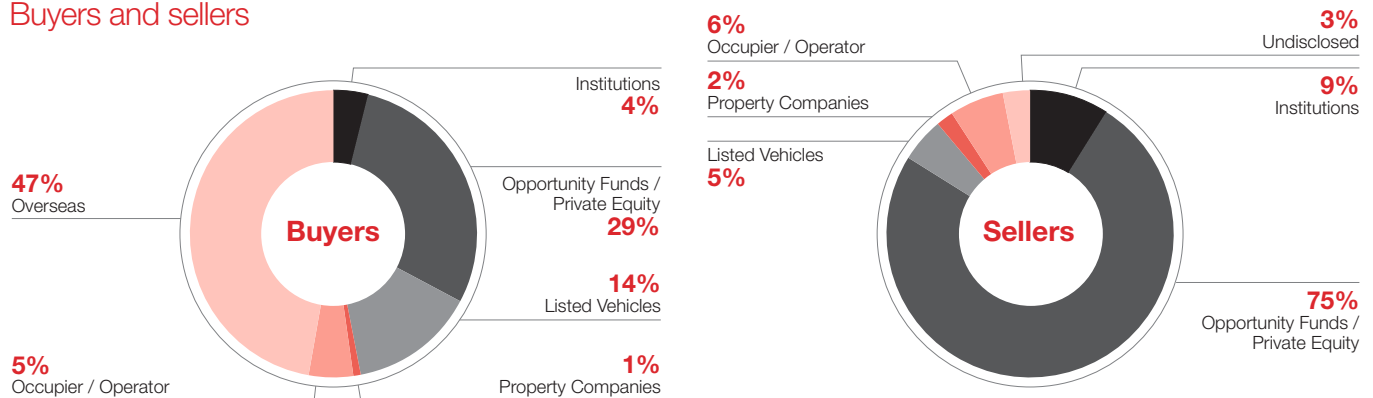
61%

of the total portfolio market

Alternative portfolio volumes (2006-2018 YTD)



Buyers and sellers



Key deals

Portfolio	Sector	Properties	(Price £m)	Vendor	Purchaser	Date
Stellar Portfolio	Student Housing	4	Q:£232m	Fusion Students	Under Offer	Current
Mayflower Portfolio	Student Housing	13	£180.5m	Unite Group	Singapore Press Holdings	Sept-18
Wears Inn	Leisure	25	£22m	BGF NVM Private Equity	Aprirose REI	Aug-18
Primary Care Centres	Healthcare	14	£63.8m	One Medical Property Ltd	MedicX Fund	Jun-18
Amaris Hospitality Portfolio	Hotel	23	£600m	Lone Star Funds	LRC Group	Jun-18
Project Ribbon	Hotel	22	£750m	Apollo Global Management	Vivion Capital Partners	May-18
Starwood Hotel Portfolio	Hotel	14	£858m	Starwood Capital Group	Fonciere des Regions	May-18
Mansford Leisure Portfolio	Leisure	37	£224m	Mansford LLP	Secure Income REIT	Mar-18
Hilton Portfolio	Hotel	7	£135m	Park Hotels & Resorts	Starwood Capital Group	Feb-18



A busy Q4 expected

The final quarter to the year will be very active with over £1bn of new portfolio opportunities being prepped for sale coupled with the over-hang of summer deals that remain under offer. We expect volumes to reach £12bn by year end which will fall short of the exceptional 2017 volumes recorded of £14.4bn but will still be an impressive 50% above the 12 year average. This portfolio activity will be concentrated around Industrial, Office and Alternative markets continuing the momentum built from the start to the year. Conversely, activity in the retail and mixed portfolio markets will be more subdued.



Overseas capital increasingly active

There is a growing trend for overseas capital to be attached to platform deals that marry equity with expertise and provide an efficient means to invest at large scale. These investors are spurred by rising capital allocations to real estate, a tendency to focus on core markets in developed economies, and a weak pound. Capital from Singapore and other Asian markets is particularly prevalent.



Private Equity

Private Equity buyers have consolidated to a small group of active parties with conviction to invest. Away from this core group, PE vehicles will continue to be net sellers as they look to divest from the significant quantum of assets acquired between 2012 and 2015, and crystallise higher returns when reviewed in the context of their IRR curve.



Opportune time to exit in certain sectors

There have been a number of motivated vendors during 2018, a trend we anticipate continuing into 2019. Key rationale for selling includes: rebalancing legacy portfolios and divesting from non-core assets (e.g. St Modwen – Cygnet Portfolio and Helical Bar – Magnvs Portfolio); capitalising on strong investor demand for some sectors (e.g. Regional REIT – Bluebell Portfolio) and crystallising returns (e.g. Mansford – Sterling Portfolio and Hansteen – IMPT Portfolio). Other factors such as the changing capital tax regime for overseas investors from April 2019 may also create an added incentive to divest.



Will 2019 be the year for notable M&A and Public to Private deals in the listed sector?

Following a subdued year we expect an uptick in activity into 2019 due to the pressure on listed entities to grow NAV in line with public market expectations. High profile corporate M&A and notable public to private deals are likely to dominate the headlines driven in particular by the pressures that go hand in hand with sizeable discount to NAVs for certain entities.



Portfolio premiums

The weight of money seeking to deploy combined with the rarity of good quality portfolios, has in our view led to premium prices being achieved compared to likely receipts for individual asset sales. However, this is not uniform across the market; it is reserved predominantly for the industrial and alternative sectors and for portfolios with a balanced selection of assets targeting a specific buyer pool.



Brexit uncertainty – Investors to pause for breath?

It has been a turbulent few months for both the Brexit process and the government, with walkouts, policy U-turns and further uncertainty. With the risk of further political turbulence in 2019 investors and occupiers alike may become increasingly cautious of committing capital to the market in Q1 2019.



There is significant appetite for portfolio opportunities; albeit limited to certain sectors and composition types. Domestic and global capital remain attracted to UK fundamentals despite Brexit uncertainties with Gerald Eve tracking over 100 investors active in the portfolio market.

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