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**COMMERCIAL INVESTMENT MARKET UPDATE
SEPTEMBER 2009**

**Peter Memmott FRICS
Senior Director**



We have seen dramatic movements in rental and capital values over the last six months. As is every the case, press articles tend to cover the more extreme cases and I thought it might be useful to reflect on current conditions in what is a rapidly changing market.

Investment Market Overview

In any market correction the momentum of the adjustment generally results in an over-adjustment. In the latter part of 2008 and the first months of 2009 this was driven principally by the Pension Funds and Property Investment Companies. These, in the light of falling asset values and potential breaches of loan criteria, were forced to embark on a programme of asset sales. Consequently, investment yields moved out by a considerable margin.

At the present time a significant number of institutions are once again becoming net investment purchasers of commercial property investments.

The adjustments to commercial property investment yields had far less impact on smaller investment lot sizes. These tend to be bought either by experienced property investors, or by individuals seeking pension-type investments. They are customarily lot sizes between £500,000 and £5,000,000. Very little good quality investment product is available for purchase by Private Treaty and indeed, by auction purchase. We have seen countless examples of well secured investments achieving results in excess of agents' expectations or auction reserves during the last six months. Private individuals' purchase bids are reflecting the shortage of good quality investment product and the fairly awful returns achieved on bank or building society deposits.

To give an example, a rather well located town centre jewellers investment with a reasonable covenant sold a few months ago. The vendor's agents expected to realise a yield of 7.5%. I am informed there were more than 20 bids below that yield, and we understand that it finally went for an initial return in the region of 6.5%. A private investor was prepared to pay to secure the right pension investment.

In auctions at present, well secured retail investments, with long term commitment and good covenant realise between 5.5% and 7%; well secured office investments 7.5% to 7.75%; well secured industrial 7.5% to 8.5%. In my opinion the risk inherent in any investment purchase is not reflected in the yields currently being paid in the retail market. Selective purchase of office and industrial investments looks far more attractive.

Generalisations do not always reflect localised market conditions. To give a couple of examples, firstly the office market. In the majority of Thames Valley regional centres there is an enormous over-supply of older office stock running into millions of sq.ft. Rental values are adjusting downwards and inducements increasing. If one is trying to find good quality modern offices between 3,000 ~ 10,000 sq.ft, it becomes clear that there is very little supply. This suggests to me there will be a gradual recovery in confidence and economical improvement over the next six to twelve months, and much of the better quality stock will be let.

With an increasing shortage of good quality accommodation which is unlikely to be developed in the foreseeable future, there should be a reasonable rebound in office rental and capital values.

Secondly, industrial property has been out of favour, with yields between 8% and 9% and on occasion more, even with the inherent risk of voids and loss of empty rate relief. Industrial still offers an attractive return. I am by no means advocating the purchase of large industrial units. In most localities if you are looking for modern light industrial units of between 2,000 ~ 5,000 sq.ft., they are becoming in increasingly short supply on both a Leasehold and long Leasehold/Freehold basis.

Selective commercial property investment purchases look attractive and finance is becoming available to support investment purchases. For those who listened, Fairweathers advocated investment purchases in February/March 2009 onwards. Purchasers have picked up very good investments with excellent returns.

If you wish to talk to us about investment possibilities, please contact me in the first instance on 07968 030554 or via pm@fwsurveyors.co.uk.

**Thames Valley Office
Unit 7 Chalfont Court
Earley
READING RG6 5SY**

**Main Contact: Peter Memmott FRICS, Senior Director
Tel 0118 921 0310
pm@fwsurveyors.co.uk**

**London Office
33 St James's Square
London
SW1Y 4JS**

**Main Contact: Robert Baker FRICS
Tel 020 3008 6122
rb@fwsurveyors.co.uk**

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