

The Year Ahead

6th January 2011

**James Thornton, Fund Director of Mayfair Capital Investment Management:
“With inflation remaining stubbornly high, investors are likely to favour real
assets”**

As we enter 2011, the main risks for the UK property market consist of rising bond yields, refinance risks associated with CMBS loans, together with the impact on the economy of the austerity measures put in place by the Coalition Government. Against this background, inflation has remained stubbornly high and well in excess of the 2% target set by the Monetary Policy Committee.

In an environment of high inflation, we expect real assets to remain in favour, with property, equities and commodities being sought by investors. We are still bearish on the prospects for gilt yields amid ongoing sovereign debt issues in Europe, coupled with the expectation that interest rates in the UK may rise towards the end of the year.

Property confers particular diversification benefits with the non-homogenous nature of the asset class meaning that it has both fixed interest and equity characteristics. Annuity investors have been active buyers of long let properties with inflation linked reviews.

We expect the UK property market to remain broadly flat in the first half of 2011, implying prime prices will rise marginally whilst there is easing in the secondary market. However we detect divergence in the secondary market with investors committing to shorter leases on well specified buildings in good locations. Older buildings in secondary locations however have little appeal.

We expect a total return of 6% in 2011 rising to 8-9% in 2012 and 2013. Income will provide the primary component of returns.

The market will continue to be dominated by equity buyers with debt availability sparse albeit there are signs that the life companies may start lending to the UK market. With sterling remaining relatively weak, the UK can be expected to continue to attract overseas investors, particularly to Central London. There may also be an increase in M&A activity in the quoted sector fuelled by overseas capital.

Rental values overall will be generally flat this year with the exception of Central London, where supply/demand imbalances will create conditions for rental growth across the retail and office sectors. The South East of England and London are expected to show the highest regional GDP rates and offer the highest prospective returns.

With an expected divergence of returns between sectors and sub sectors, 2011 will be a year for stock picking and positioning portfolios to benefit from better economic times ahead.

—Ends—

Notes to Editors

The above outlook was written by James Thornton, Fund Director at Mayfair Capital Investment Management.

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Mayfair Capital Investment Management

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Mayfair Capital was formed in June 2002 as an independent property fund management business designed to serve charities, private investors and pension funds. It currently manages £300 million in pooled funds.