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Mayfair Capital raises concerns over impact of hung parliament on markets

Commercial property manager Mayfair Capital Investment Management expects the formation of a hung parliament to have a detrimental effect on markets. Over the next few days and weeks as political deals are done to form a coalition Government, the lack of direction particularly in the area of economic policy does not bode well for investors.

James Thornton, Fund Director of Mayfair Capital, commented:

“Sterling has already dropped significantly and gilt yields are rising as investors take fright over a lack of outright control of economic policy. Property investment in this scenario could be expected to suffer as yields rise in sympathy with bond yields and investors require higher risk premia to reflect the uncertainty.”

Of late, property pricing has become more correlated with bond yields as investors have preferred property as a source of income over and above Government gilts. The pricing of gilts is a function of supply and demand; supply in terms of the Government needing to finance its deficit, whilst demand will be based on investor confidence over the state of the public finances and political will to address the deficit.

Any change to the UK's AAA credit rating as a result of government inability to control the deficit would inevitably result in higher bond yields, leading to lower property prices.

Conversely, if sterling does fall relative to other currencies, the central London property market will see the recent influx of overseas investment continue, providing a buffer to prices. In the past 18 months, foreign investors have been active across central London retail, office and residential markets, benefiting from sterling's weakness.

With the public sector recently accounting for 40% of regional office take up, this will be reduced as inevitable cuts in Government expenditure are made. Depending on the pace of those cuts, redundancies within the public sector could result in unemployment reaching more than 3 million.

The election outcome will also influence decision making on key infrastructure projects, such as Crossrail. Despite being announced and some enabling works to stations being carried out, this is not a funded project. Any further delay would have a longer-term impact on GDP in London and the South East.

James Thornton, Fund Director of Mayfair Capital, concluded:

“With UK GDP improving only slowly, the coalition Government will need to find a balance between increased taxation and reducing public expenditure against the background of needing to sustain growth in the economy.”

—Ends—

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Notes to Editors

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 £156 million in four pooled funds with a further £25 million of advisory mandates.

Founders Guy Brogden and James Thornton have complementary skills with James having a background in fund management and Guy having been involved in investment transactions for nearly 30 years. Both Guy and James were Partners at Jones Lang Wootton (now Jones Lang LaSalle) in the 1980s and '90s. James subsequently left to become Head of Fund Management at Savills.

Mayfair Capital's flagship fund, the Property Income Trust for Charities (PITCH), was the best performing fund within the Association of Real Estate Funds All UK Balanced Pooled Funds Index last year. PITCH returned 9.2% in 2009, compared to the index return of -1.8%.