

Property sales take a beating

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Sales in the commercial property market nosedived in the fourth quarter of last year, hit by tumbling prices and turmoil in credit markets.

The value of transactions fell from £15bn in the third quarter to £5.5bn in the fourth, according to Property Data, an independent data provider. The stalling of activity contrasted sharply with £20.1bn of deals seen in the last three months of 2006.

It was the weakest fourth quarter since 2000. The last time quarterly sales fell to under £5.5bn was in 2002 during the traditionally quiet first three months of the year.

"The market has basically frozen since the middle of the third quarter," said a spokesman for Property Data.

He added the last quarter was traditionally the busiest as funds needed to use up their cash before the year end. The main reason for the fall in activity was an absence of overseas investors, who spent just £1bn in the last quarter, down from more than £6bn in the third. Central London was hardest hit as transactions dropped from £6.7bn in the third quarter to just over £1bn in the fourth.

Julian Stocks, head of capital markets at agent Jones Lang LaSalle, said a large proportion of overseas buyers relied on debt to fund acquisitions. He said: "The big deals dried up because these are normally supported by debt-backed buyers, who vanished at the end of the year."

Mr Stocks added it was too early to see money coming from opportunistic buyers despite recent noises from many entrepreneurial investors keen to pick up bargains. There are also a number of opportunity funds being set up to take advantage of forced sellers of property.

Mr Stocks predicted most investors would wait until later this year to begin buying.

Property Data also confirmed anecdotal evidence that returns have fallen fast since the summer. The average net initial yield in the UK, rent as a proportion of a building's price, rose from 4.93 per cent to 5.52 per cent during the last quarter. This suggest falling capital values.

Oliver Gilmartin, senior economist at the Royal Institution of Chartered Surveyors, said transaction volumes continue to fall at a slower pace than transaction values. He said: "This indicates that disruption in credit and securitisation markets has exerted the greatest impact on big ticket deals as financing conditions have tightened."

Agents, however, say deals are still being done with overseas investors, with private Irish and German funds in particular more active.

British Land is in talks to sell an office building in the City of London to a German fund for about £120m. At the end of the year, Legal & General sold 1 Victoria Street to Irish investor D2 Private for £175m.

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