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## U.K. REIT Discounts Are Overdone, Notably for Central London Office Market

London, UK – September 6, 2017: The fall in shares of property companies focused on the Central London office market, triggered by the U.K. vote to leave the European Union, has gone too far and presents investors with selective buying opportunities, Green Street Advisors analyst Peter Papadakos told the European Public Real Estate Association's annual conference on Wednesday.

**Peter Papadakos, Managing Director at Green Street Advisors**, said: "Public markets don't always get it right and we disagree with the overly bearish stance on the Central London office market. Certainly, there are longer-term challenges, however REIT values currently price in a sharp Brexit-induced rental downturn that we don't expect to materialize."

Real estate investment trusts (REITs) with Central London office assets currently trade at a 15-20% discount to the present gross asset value of their portfolios. Central London offices owned by the REITs will probably drop in value by 10% in total by the end of 2018, less than current share prices imply, the real estate research firm said in its two latest European reports.

Specialists in Central London investments, U.K. small cap companies and self-storage operators are currently among Green Street Advisors' top market picks because of the Brexit impact, which has left the U.K. listed property sector trading at an 8% discount to the estimated gross asset value of their portfolios.

By contrast, the research firm said shares of Continental European listed companies are more aligned with estimated gross asset values, trading at about a 2% discount. While general prospects for rental growth in Continental Europe are better than in the U.K., only select office markets will enjoy broad-based, double digit growth: Stockholm's and Gothenburg's CBD, Berlin, La Défense in Paris and Central Barcelona. Madrid and Milan will probably join their number in 2018, Green Street Advisors predicts.

Diversified Nordic property companies and German residential operators are Green Street Advisors' favored sectors in Continental Europe.

Green Street Advisors expects London to shed about 40,000 financial services jobs over the next five to seven years as a result of companies losing their automatic passporting rights to the EU Single Market. The City of London and Docklands office markets are likely to be the hardest hit by the migration of certain services and companies to other EU countries, although this will be largely offset by the diversified occupier market in London – notably strong take-up by the creative and technology sectors, -- Green Street Advisors researchers said.

REITs are slowing the Central London office development pipeline, meaning that although vacancy rates in the City of London will probably rise to about 9.7% in 2019 from 5.8% at the end of the first half of 2017, they are likely to then start receding. Prime City of London rents will fall about 15% to about £60 a square foot, Green Street Advisors estimates, which predicts more modest falls in the West End office market.

**Papadakos concluded:** “Europe’s yield compression story is largely over, so the returns from real estate will be lower than for the past three years. Assuming interest rates remain at current levels, we’re in a pretty benign environment and there are no red flags in terms of real estate pricing. We expect property values to stabilize or rise in Continental Europe, while in the U.K. they will stabilize or fall. Broadly, property values have a sufficient cushion to absorb higher interest rates, the fundamentals are still favorable for most real estate investment and the asset class remains attractive for income-hungry investors.”

**Ends.**

#### **About Green Street Advisors**

Founded in 1985 with a European operation since 2008, Green Street Advisors is the preeminent independent research, trading, and advisory firm concentrating on Real Estate Investment Trusts (REITs), other publicly traded real estate securities, and the private commercial real estate markets in North America and Europe. Additional information on Green Street Advisors is available online at [www.greenstreetadvisors.com](http://www.greenstreetadvisors.com).