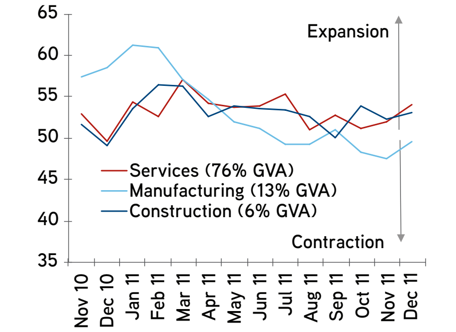
RESEARCH & FORECASTING UK

PROPERTY SNAPSHOT

PURCHASING MANAGER INDICES



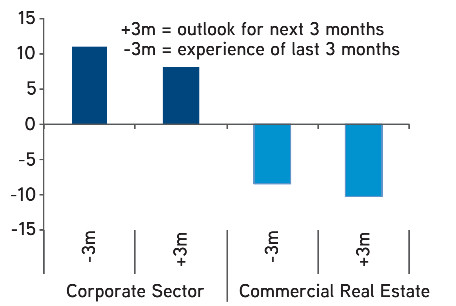
Source: CPI/Markit

Economy

- Expectations of a UK recession in 2012 have moderated with a British Chamber of Commerce survey suggesting that a recession is not a foregone conclusion. Further improvement in service sector PMIs from 52.1 in November to 54.0 in December suggests that Q4 11 GDP will not show an economic contraction.
- Eurozone developments remain a major risk and continue to distort capital market activity and wholesale funding for banks. The latest Bank of England Credit Conditions Survey shows that only a minor improvement in corporate debt availability is expected in Q1 12; real estate debt will contract. EuroHypo and SocGen announced that they were pulling out of the UK market.
- Inflation is set to fall as base effects from 2011 and the VAT increase begin to impact significantly. In December, CPI fell to 4.8% and RPI to 5.2% with core inflation also down to 3.2%. Interest rates are firmly on hold with further quantitative easing still possible.

Colliers view: Despite improved UK economic sentiment, eurozone financial issues continue to distort capital markets and undermine consumer confidence.

AVAILABILITY OF COMMERCIAL CREDIT



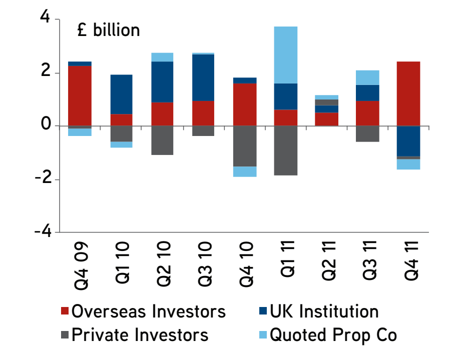
Source: Bank of England

Investment

- Despite deteriorating year-end sentiment, December trading pushed the 2011 UK transaction volume total up to around £31bn, exceeding expectations; the figure is down 10% on 2010. UK institutions were net sellers in Q4 11 (-£1.8bn) for the first time since Q3 2009, while foreign investors were net buyers (+£2.4bn). Further fund sales are expected due to redemptions and portfolio 'tweaking' in the wake of diminished capital growth expectations.
- Retail Shops: Yields remain keen with New Bond Street shops being sold by NAMA to Louis Vuitton for £300m at 3% IY and 3 Savile Row (long indexed lease) selling for £31.9m at 3.76% IY. Regional pricing for prime is firm at between 5% and 6% IY, although most deals were sub £10m. Shopping Centres: Prime assets are absent from the market; secondary is moving with Blackpool, Birkenhead and Chelmsford all completing in December. Yields ranged from 7.4% in Blackpool to 10.9% in Birkenhead. LaSalle IM is buying. Retail Warehouses: Some 16 assets were purchased, almost exclusively by UK funds, at yields ranging from 5.1% in Brighton (open A1 consent) to 7% in Livingston (bulky goods). Regional DIY standalones (B&Q, Wickes) traded at around 6%+. Supermarkets continue to attract great interest with Morrisons in Birmingham (35 years RPI forward funding) going for £50m at 4.5% and a Tesco in Chester selling for £54m at 4.5% IY.
- Offices: City: Fewer City deals concluded than hoped as sovereign wealth funds paused to reconcile strategy with valuations. Prime pricing remained firm though, with the Malaysians buying the Linklater's building for £350m at 5.4% IY. Deals were also concluded for 60 Threadneedle Street for £176m at 4.75% and 3 Burnhill Row for £81.8m at 5.4%. West End: Further sub 4% deals were reported led by the purchase of 1-3 Berkeley Street for £155m at 3.8% IY by a fund backed by the Bertarelli family. Like other recent West End purchases there is scope for redevelopment. Regional: Following on from its November purchase in Birmingham, Deka Immobilien bought buildings in Manchester (£45m) and Edinburgh (£23.8m) at yields of 6% and 6.4% respectively.
- Industrial: The UKLF, London & Stamford (Triangle) and ProLogis (Teal) portfolios totalling £793m completed in December with SEGRO buying UKLF's prime offering for £314m at 6.3% IY and Blackstone buying the Triangle for £265m at 6.9% and Teal for £214m at 7.9%. Hansteen purchased two other portfolios with voids for a total of £150m at yields of 8% and 8.5%.

Colliers view: The year-end exceeded expectations. Prime pricing is stable; secondary is weakening further with more distressed assets expected to reach the market as discounted loan portfolios are sold to investors who will begin to sell piecemeal.

NET VALUE OF INVESTMENT



Source: Property Data Ltd

Occupier markets

RETAIL

- Consumer confidence remains very low with the Nationwide barometer rising modestly from an all-time low of 36 in November to 40 in December, still in line with recessionary levels. Household disposable income growth was marginally positive in Q3 11 at 0.3% y/y, with the household savings ratio up again to 6.9. Retail trading will remain difficult.
- Positive sales figures reported by many retailers in the run-up to Christmas were achieved by discounting, hence margins were squeezed, profits were down and further administrations reported. Our Investment Property Management team in the UK reports that rent collection for December's rent day was the most difficult in three years.

Colliers view: Unchanged. Retail sector performance is not improving, further administrations are expected, rents are falling and landlords continue to brace themselves for further stress.

OFFICES

- City: Banks are cutting headcount by another 5% in 2011; hence demand for 100,000 sq ft+ space is weak. A few large non-bank requirements are coming through, but mid-level 'churn' is supporting the market. West End: Headline rent is stable at £95 psf, although the landed estates are reported to be reining in incentives, given exceedingly low void rates. A marginal increase in demand will push rents higher.
- Regional: Absorption is positive across most markets, although vacancy rates are still in double digits. Activity at the lower end of the market is propping up aggregate take-up figures; expansionary demand is limited to smaller scale activity, although deals are taking longer to complete. Q1 12 is likely to be robust given that many deals will be hangovers from 2011. Demand in the Thames Valley has moderated.

Colliers view: Despite economic weakness, the lettings market has been seeing more activity. Rents are stable and in the West End are linked increasingly to specific buildings, rather than to individual submarkets.

INDUSTRIAL

- The London Gateway project in the Thames estuary is gaining traction with the owners DP World tendering for leasing agents on its 'portcentric' project, with some 9.25m sq ft of logistics space on offer. The port is designed not only for break-bulk operations, but as a distribution hub in its own right. Availability of prime Grade A distribution space over 100,000 sq ft remains very limited around Greater London, falling by 57% over 2011 to 1.2m sq ft.
- Multi-let industrial: Little change in the market: demand is steady with strength in Greater London, the South East and South West. Despite tough trading conditions, many small firms are looking to take space to optimise transport and labour costs.

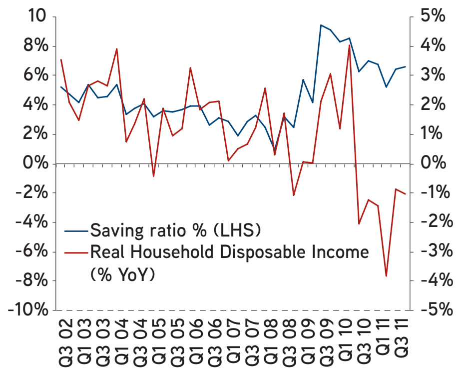
Colliers view: Unchanged. Prime distribution sheds over 100,000 sq ft are still in short supply. Multi-let industrial parks are seeing limited but steady demand. Landlords are still struggling.

Residential

- The Nationwide Index finally showed a decline in December after three consecutive monthly rises, falling by 0.2% m/m; prices fell by 1% for the whole of 2011. The Halifax Index also fell, down by 0.9% m/m, with prices down by 1.3% for the year. Prime pricing is also stable, but foreign investors are beginning to track UK economic developments closely.
- Mortgage approvals were stable at 52,854 in November. The lack of mortgages and first time buyers is encouraging the buy-to-let market. The FT reports that private sector landlords now have a 42% share of the UK's residential stock or 19% by value. Many investors are motivated by the prospect of rental growth that has been absent for many years.

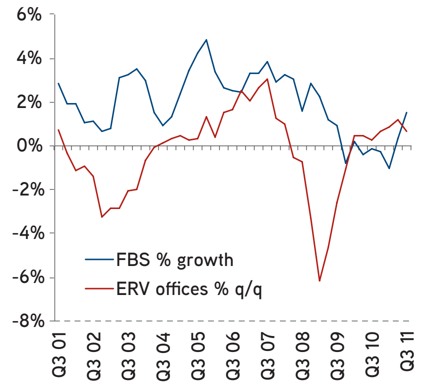
Colliers view: House prices are generally stable, although down marginally year on year. Lending volumes and terms are not improving, which is encouraging the growth of private landlords. Foreign investors are tracking UK economic fortunes closely.

DISPOSABLE INCOME/SAVINGS RATIO



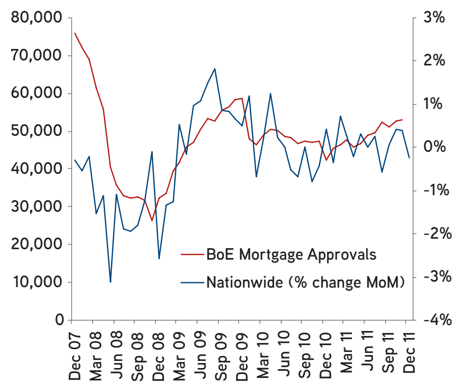
Source: ONS

FINANCIAL/BUSINESS SERVICES (% PA GROWTH)



Source: ONS, IPD Quarterly Digest

HOUSE PRICES & MORTGAGES
(MONTH ON MONTH X '000)



Source: Bank of England, Nationwide

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