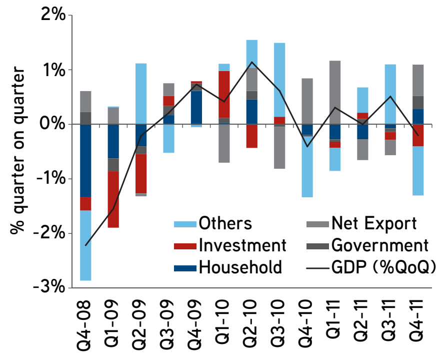
RESEARCH & FORECASTING UK

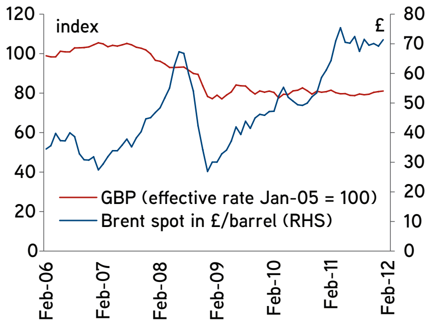
PROPERTY SNAPSHOT

GDP GROWTH COMPONENTS



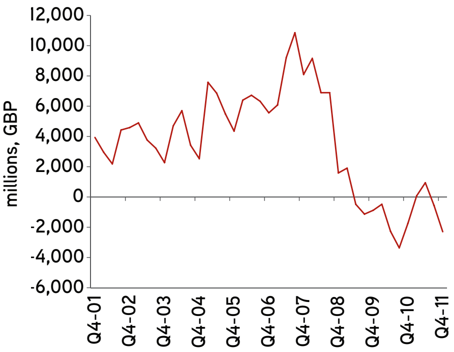
Source: ONS

OIL PRICE & EXCHANGE RATE



Source: EIA, Bank of England

CHANGE IN UK REAL ESTATE LENDING



Source: Bank of England

Economy

- The components of GDP growth for Q4 11 show that business investment is the principal constraint on recovery. Capital formation and inventory growth fell by 2.8% and 0.8% q/q respectively, offsetting positive contributions from export and household spending at 2.3% and 0.5% q/q. Moderating inflation expectations may be supporting household spending.
- Despite January's improved inflation figures (CPI and RPI registered 3.6% and 3.9% respectively, with core inflation down to 2.7%), weak sterling, political turbulence in the Middle East and the consequent surge in oil prices is acting to undermine confidence. Brent spot prices denominated in sterling remain very high and UK energy price inflation has been in double-digits since September 2011, registering 16% y/y in January 2012.

Colliers view: UK economic sentiment should continue to improve, although Eurozone developments and worries about an oil price shock are impacting on confidence.

Investment

- February transaction levels remained muted. Institutions remain well off the pace, with foreign investors continuing to dominate the market. Qatar Holdings and St Martins (Kuwait) made the largest purchases in February. Net lending to commercial real estate contracted further in Q4 11 to -£2.3bn and may contract further as UK banks become subject to new FSA capital requirements based on the quality of existing real estate loan portfolios. Sales of distressed assets and loans are likely to rise. UK institutional funds plan to increase senior debt exposure with AXA intending to exploit the 'exceptional market conditions for senior lending'; much of this activity may focus on purchases of existing loan portfolios rather than new origination.
- Retail Shops: Given the perception of a weakened price profile, funds are holding assets, hence very little activity. Shopping Centres: Westfield sold three centres (Belfast, Tunbridge Wells and Guildford) to Hermes for £159m as it refocuses on core investment and non-JV development strategies. Land Securities is selling St Johns in Liverpool in response to pressure to develop or dispose. Retail Warehouses: UK fund appetite for retail parks with long income is unabated. Aberdeen Asset Management bought Elms RP in Wisbech (35-year lease to Morrisons and B&Q) for £24.5m at 5.3% IY.
- Offices: Interest in Central London remains strong. City: Interest is focused on single let assets. Qatar Holdings completed a Sale & Leaseback of the Credit Suisse UK headquarters at 1 Cabot Square for £325m at 5.4% IY. St Martins bought 1 Bunhill Row (Slaughter & May) for £180m at 5.5% IY. Asian interest also remains strong, although pricing is being tested and deals are protracted, with some falling out altogether. West End: Amazon Properties has acquired development sites at Park Crescent East and Bolsover Street for £47m and £21m respectively. Aberdeen put 3 St James's Square (2014 lease expiry) on the market for £65m at 4.5%. Welput put its multi-let Grade A redevelopment at 5 Stratton Street on the market for £170m at 4.1% IY; this should prove to be a good test of market appetite. Regional: Very quiet, although Callaghan Square in Cardiff (leased to Eversheds until 2022) sold for £25.5m at 6.5% IY.
- Industrial: Fund appetite for multi-let industrial parks continues as the SEGRO sale of five fully let industrial parks to Ignis suggests; the assets changed hands for £80.2m at 6.3% IY. Otherwise, activity is very limited.

Colliers view: Transaction levels remain limited as investors take stock, revisit strategies and refocus on core assets. Real estate finance remains absent with few signs of improvement. Capital values are stable, but being tested, including prime.

Occupier markets

RETAIL

- Consumer confidence improved in January; the Nationwide barometer rose from 38 to 47. ONS sales volume growth also accelerated from 0.5% m/m in December to 1.3% m/m in January. Falling inflation may partly explain this sales buoyancy, but continued discounting is also being used to drive sales. The retail price deflator fell from 2.7% y/y in December to 1.9% y/y in January.
- Retail job losses in January are estimated at 3,526. Bon Marche, La Senza, Peacocks and Pumpkin Patch failed. Edinburgh Woollen Mill bought Peacocks and will re-open 75 of 224 stores; Alshaya bought La Senza and will re-open 60 of 120 stores; and Sun European bought Bon Marche and will continue to operate 230 of 390 shops.

Colliers view: Unchanged. Retail sales figures are improving, but further administrations are expected, rents are falling and landlords continue to brace themselves for further stress.

OFFICES

- Experian's February employment headcount forecasts show an inner London financial service contraction of 2,304 jobs in 2012, with recovery forecast for 2013; business services, though, remain positive throughout the forecast horizon.
- City: Little activity reported in the 100,000 sq ft+ bracket and few new bona fide requirements are coming through, although the Prudential Regulation Authority may conclude a deal to take 150,000 sq ft at 20 Moorgate. Prime quoting rent in the City is £57.50 psf, but few deals have completed at that level. Rent free periods are static at just over 12 months. West End: Technology companies remain active, looking for quality wherever they can find it. Limited supply continues to support rents with several submarkets seeing substantial growth. Prime quoting rent is £95.00 psf and is likely to be pushed higher.
- Regional: Experian forecasts follow the inner London pattern, with financial and business services growth expected to offset government downsizings by a wide margin. The Big Six markets have greater activity, with a rumoured record rent of £32 psf achieved in Edinburgh. Tenants are also less discriminating. The Thames Valley is alleged to have several large opportunistic requirements. Anecdotal evidence suggests that M&A activity is up, but limited to sub-£50m deals; the impact on occupier markets is not yet apparent.

Colliers view: City rents are stable, although demand is flat in the prime 100,000 sq ft+ segment. West End availability is also tight and interest in non-core areas is increasing, as are rents. Regional centres are seeing greater activity.

INDUSTRIAL

- In parallel with limited February investment activity, there has also been little movement in the industrial leasing markets. Grade A distribution and industrial park space remain in very short supply, but the evidence suggests that many companies are taking stock, revisiting strategies and making do with sub-optimal space rather than upgrading or acquiring new facilities.

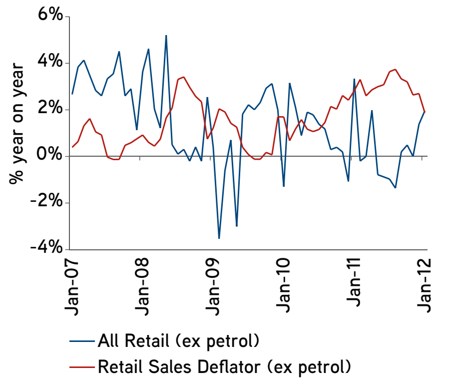
Colliers view: Unchanged. Leasing demand and development remain off the pace due to uncertainty. The development pipeline remains very limited.

Residential

- The Nationwide Index fell by 0.2% m/m in January taking the annual rate down to 0.7% y/y. In contrast, the Halifax Index increased in January by 0.6% m/m, but the annual rate is still negative at -1.6%. On balance, house prices were generally stable in 2011, although highly variable across regions.
- Mortgage approvals are rising, possibly in response to the end of March stamp duty relief deadline; first-time buyers accounted for a 10% increase in mortgage lending in January, according to the Council of Mortgage Lenders. Foreign interest in prime Central London continues unabated, although prime Central London rental growth has cooled as City bonus expectations and recruitment demand softens.

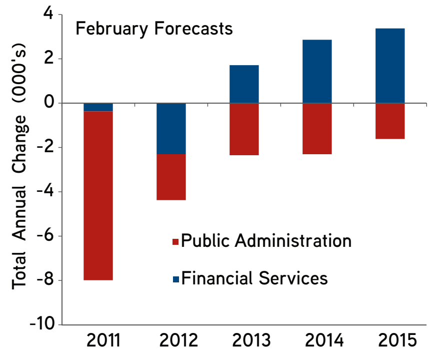
Colliers view: Unchanged. House prices are generally stable, with modest declines expected in 2012. Lending volumes continue to improve, but first time buyers are still locked out. Foreign interest continues to support prime markets, increasingly outside of London.

RETAIL SALES VOLUMES GROWTH



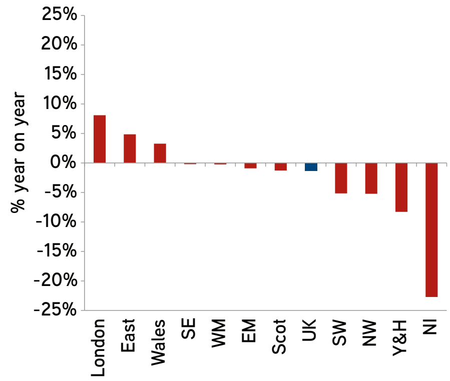
Source: ONS

INNER LONDON EMPLOYMENT



Source: Experian

REGIONAL HOUSE PRICE GROWTH (Q4 11)



Source: Halifax

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