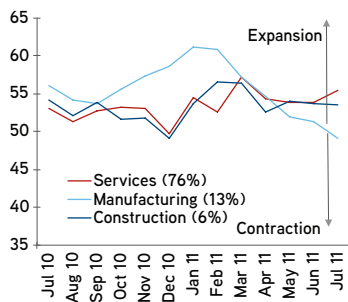




# RESEARCH & FORECASTING UK PROPERTY SNAPSHOT

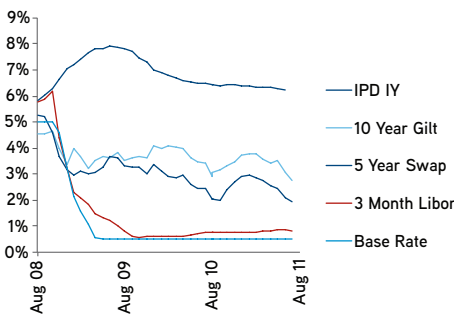
## PURCHASING MANAGER INDICES



Source: CPI/Markit

“PMI services indices suggest positive GDP growth in Q3 11.”

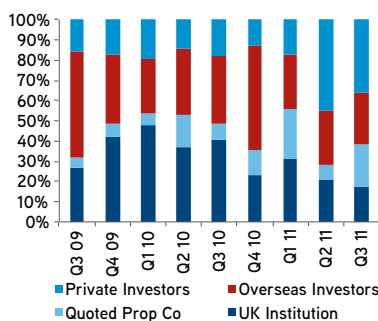
## SELECTED RATES (%)



Source: BoE, FT

“Transaction levels have fallen substantially behind the pace of 2010.”

## PURCHASERS (%)



Source: PropertyData Ltd

“Few prime assets are available, but risk appetite has increased slightly.”

## Economy

- Preliminary Q2 11 GDP was announced at 0.2% q/q. Weakness is attributed to ‘temporary factors’ (extra holidays, weather, wedding, and tsunami) which shaved 0.5% off quarterly GDP. Market forecasts are being downgraded with Capital Economics forecasting 1% growth, down from 1.5% in January. Nevertheless, purchasing manager indices suggest positive GDP growth in Q3 11; manufacturing and construction fell slightly, but services sector PMI, which represents 76% of economy, strengthened modestly from 53.9 in June to 55.4 in July.
- Core inflation (excluding food and energy) is falling, suggesting that RPI and CPI will moderate later this year. June CPI and RPI are 4.2% and 5.0% respectively. UK 10-year gilts are sub 2.75% reflecting ‘safe haven’ flows, as well as diminished economic and inflation expectations. The US Fed announced no rate hikes until mid-2013. UK may well follow course.

**Colliers view:** The Q2 11 GDP figure struck a fine balance: sufficient strength to suggest stability and allow reaffirmation of government commitment to fiscal cutbacks, but weak enough to indicate little likelihood of a base rate hike this year.

## Investment

- 10-year gilts have fallen below 2.75% suggesting scope for further prime yield compression. Five-year swaps are sub 2%, although finance is only available for prime assets. Transaction volumes have fallen behind the 2010 pace; Q2 11 was down by 25% compared to Q2 10. July figures were also down by 50%+ at £1.85bn. Colliers’ latest Property Pricing Survey suggests that risk aversion has eased, but that secondary yield movements are mixed: secondary offices, business parks, retail shops and retail warehouses have moved out by 40 bps on average, while secondary shopping centres, industrial and distribution fell by 20 bps.
- Retail: High street: Prime yields remain keen with 16 Old Bond Street (Prada) selling for £32m at 3.15% IY to a private Asian buyer. The Khoo Teck Puat UK Trust bought 26-40 Kensington High Street for £62.5m at 4.5% IY. Outside London, several assets changed hands with 97 Argyle Street in Glasgow sold to DTZ IM for £35m (subject to rent review). Shop parades sold in Manchester and Poole at 6.7% and 6.5% IY respectively, and single units sold in York (Superdrug) and Weston-super-Mare (Next) for 5% and 5.5% IY. Shopping centres: Few transactions, although St Johns in Perth (secondary with little competition) was sold to USS for £31.25m at 7.9% IY. Retail warehouses: Only one significant deal transacted in July, with Cardiff Bay RP selling to Orchard Street for £54.5m at 6.25% IY.
- Offices: City/South Bank: Redevelopment is the main theme illustrated by Hammerson’s £100m purchase of 99 Bishopsgate. Deutsche Bank will vacate 145,000 sq ft, refurbishment to Grade A standard will follow, and marketing is scheduled for 2012 (when space will be scarce). Canary Wharf/Qatari Diar bought the Shell Centre for £300m for redevelopment. Shell pre-let 210,000 sq ft. Royal Mail (Telereal) sold a site near a Crossrail interchange with planning for £35m. West End: Residential conversions continue to be snapped up at 22 Queen Ann’s Gate (£17.5m), 7-9 Portland Place (£11m), and 38-40 Eastcastle Street (£8m). Elsewhere, Tishman Speyer bought 14-24 Great Smith Street for £175m at 5.6% IY leased to government for six years. Regional: Few significant deals, although a half let office in Manchester changed hands for £25m at 7% and the Forbury Building in Reading with 10 years on the lease was sold by funds to Schroder Properties for £42.5m at 6.5%.
- Industrial: Few significant deals. Two Tesco warehouses were sold in Didcot (£26.1m at 6.95% IY) and Harlow (£22.9m at 7.5% IY). Two small portfolios of mixed assets were sold, one in Aberdeen to Highcross (£20.3m at 9.1% IY) and one in the South East to Columbus (£15m at 8.6% IY). A post completion leasing deal may have already boosted the capital value by 10%.

**Colliers view:** Market movement was limited in July; hence few clear trends. Nevertheless, Central London development is a target and funds are looking at secondary assets.

## Occupier markets

### RETAIL

- ONS retail sales (ex-petrol) rose 0.8% m/m in June, although quarterly growth remains flat at 0.2%. Non-store retailing remains strong, up 4.8% m/m. BRC like-for-like sales fell 0.6% in the three months to 30 July. Big ticket items are not moving. Retailers continue to buy turnover through discounting; margins are not improving. Improved profits (where reported) come from cost control, streamlined product ranges and online sales. Waitrose reports a shift of interest to its value offer.
- No new large administrations were reported in July, although Dreams' credit insurance was rescinded. Trading results are mixed with Kingfisher Group sales up, despite a B&Q sales decrease. Next Directory sales are offsetting declines in shop sales - a theme that will no doubt be repeated elsewhere. The retail income void rate was stable at 9.7% in June. According to Retail Week, Land Securities is seeing a decrease in its shopping centre income voids.

**Colliers view:** Retailing is not getting easier; costs are undermining profits; the scope for discounting is narrowing. Rents are still falling outside of London, although retail warehouses are showing growth.

### OFFICES

- City: Incentives and headline rent (£57.50 psf) are stable with few completions in July, although numerous negotiations are underway. Canary Wharf: EMA has completed a pre-let of 250,000 sq ft at 25 Churchill Place with a net effective rent rumoured to be around £40 psf. West End: Limited movement in July. Headline rent is stable at £95 psf. Arcadia is looking for 130,000 sq ft or just under 15% of total availability. Our data suggests, however, that only one existing Grade A building being marketed actively could accommodate the requirement and it is 'non-core'. Argent is set to break ground on 180,000 sq ft of speculative space at King's Cross. Regional: After a long period of dormancy, demand in Leeds is up decisively with several requirements going live (legal, insurance, accountancy, utilities). South East demand (ex-London) is also looking rosier, although deals remain fairly protracted.

**Colliers view:** Rental pressure persists in Central London due to a lack of space. The City is less pressured, but activity is increasing. Regional vacancy rates are stable, with a few new signs of life.

### INDUSTRIAL

- Expansionary investment, especially by SMEs, has gained little traction due to ongoing uncertainty, a slowdown in world trade (which explains weakness in exports and manufacturing), and lack of banking support. The sector is also buffeted by negative media reports, such as the Bombardier cuts in Derby and the award of a major UK manufacturing contract to a non-UK company.
- Leasing demand is generally flat in the multi-let sector, although London and the M25 are seeing better demand. The extreme shortage of large Grade A distribution spaces UK-wide is also leading to localised competitive bidding. 'Design and builds' have been dormant, but recent press suggests that pressure is building for new activity as potential occupiers find few alternatives.

**Colliers view:** Sector has weakened slightly. Demand remains patchy, although supermarkets and internet distributors are absorbing the remaining Grade A space. The South East is doing better.

## Residential

- Derivative pricing suggests price falls of -4.5% in 2011, down from -6.5% in June. Positive growth was pushed back from 2013 to 2015. Mortgage approvals rose by 4.3% in June to 48,421. Rental growth is reviving the buy-to-let market with LSL's Index up 6.9% y/y in June. BTL mortgage costs are falling as banks re-enter the market. First time buyers remain locked out.
- London prime is pressured by foreign demand and domestic bonuses; price stability is questioned. The FT reports a sales surge in the year to May, with deals in the £3m+ category up substantially. The surge is attributed in part to avoidance of April's new 5% stamp duty on £1m+ homes.

**Colliers view:** House price remain stable, but sensitive to interest rates, mortgage availability and wage growth. Price declines are expected in 2011, although London continues to attract investors.

For further information, please contact:

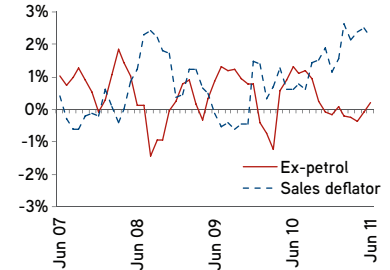


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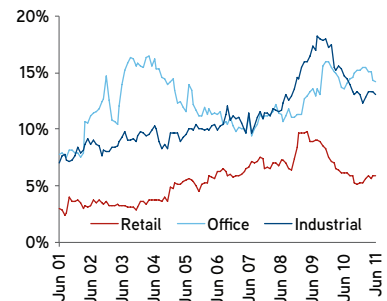
### RETAIL SALES VOLUMES % (3M/3M)



Source: ONS

"Waitrose reports a shift in interest towards its value range."

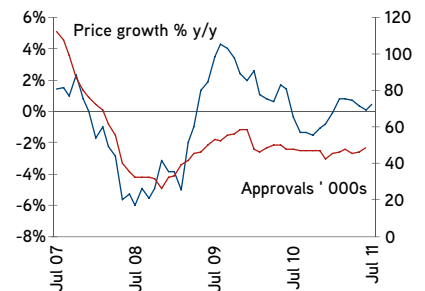
### IPD VOIDS % INCOME



Source: IPD Monthly Index

"After a long period of dormancy, office demand in Leeds is up decisively."

### HOUSE PRICES AND MORTGAGES



Source: Nationwide, Bank of England

"Derivative pricing suggests house price falls of -4.5% in 2011, down from -6.5% in June."



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