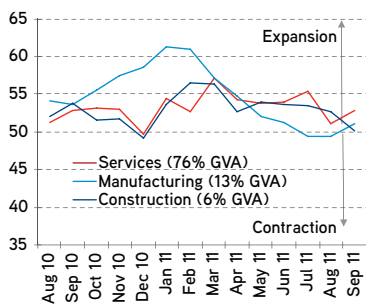




# RESEARCH & FORECASTING UK PROPERTY SNAPSHOT

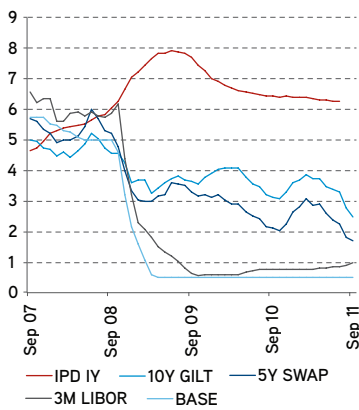
## PURCHASING MANAGER INDICES



Source: CPI/Markit

“The latest PMI data suggests positive growth in Q3 11 of 0.1% q/q.”

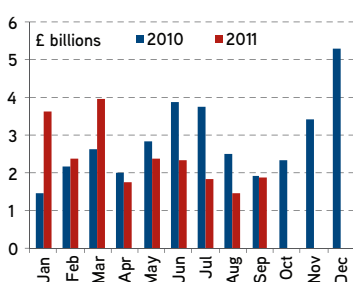
## PROPERTY FINANCE EXPECTATIONS



Source: IPD, FT

“Pricing for city prime remains stable, but is being tested.”

## INVESTMENT TRANSACTIONS



Source: Property Data, 2011

“Funds have cash, but are seeking value.”

## Economy

- Q2 11 GDP was revised down to 0.1% q/q showing that the recession was deeper than originally thought. Real GDP is still 4.5% down on its pre-recession peak. The latest purchasing manager indices suggest that the Q3 11 GDP growth figure will struggle to remain positive at 0.1% q/q. The services sector PMI (representing 76% of economy) strengthened slightly from 51.1 in August to 52.9 in September.
- In response to the much weakened UK economic profile and, no doubt, eurozone fallout worries, the MPC has extended quantitative easing (QE) by an additional £75bn. CPI and RPI were up slightly in August at 4.5% and 5.2% respectively, while core inflation was stable at 3.1%. Wage growth remains very weak and household disposable income continues to contract.

**Colliers view:** Uncertainty and new concerns about the UK’s economic prospects and the potential for a eurozone-triggered financial crisis is inhibiting business expansion and household spending. Corporate liquidity, however, remains high.

## Investment

- Eurozone and UK economic worries are buffeting investment across all asset classes. Investors are risk averse. Ten year gilts fell to 2.23% after the QE announcement – a level not seen for almost 100 years. Gilts are now around 40 bps lower than in August and a spread of 350 bps has opened up against IPD all property initial yields; five-year swaps fell to 1.76%; property investment transaction levels have not yet responded. Pricing for prime remains stable, but is being tested in the City. Secondary is weakening in the absence of debt. Investment volumes year-on-year were positive in September for the first time in six months. The market YTD is down less than 10% on 2010. Despite this improvement, vendors may struggle to match last year’s total sales as buyers show greater price sensitivity.
- Retail: Central London prime is still trading near 4% IY; Selfridges’ owner, Wittington Investments, bought 388-396 Oxford Street (French Connection) for £80m at 3.8% IY and SWIP purchased 361 Oxford Street for £76m at 4.3% IY. Outside London, CBREi purchased a parade in Sheffield for £10.3m at 6.5% and a prime retail unit in St Andrews for £4.6m at 5.75%. Private investors bought numerous small shops UK-wide with yields ranging from 5.7% to 7.3%. Shopping Centres: Several deals agreed over the summer are yet to complete, with economic uncertainty no doubt taking a toll. Network Rail purchased Victoria Place, SW1 for £91.8m as part of a strategic plan to reconfigure Victoria Station. The Mall Fund sold two centres in Middlesbrough and Barnsley to F&C REIT for £108m at 8.6% as part of an on-going sales strategy. Retail Warehouses: Limited prime stock is on the market, although Pierpont RP in King’s Lynn with open A1 sold to Metric Property for £15.1m at 6.3%. Most available stock is secondary and trading at yields of between 6% and 8%. Supermarkets: Funds continue to compete with sales completed for Tesco in Coventry and Sainsbury’s in Tooting at 4.6% and 4.4% respectively.
- Offices: Few deals completed in the City in September, although some £5bn of assets are now on the market. Pricing may be tested. LaSalle IM bought 1 Dorset Rise, EC4 for £47m with plans to redevelop it as a Premier Travel Inn. Mid-town: Private investors bought several medium lot-sized assets, although GPE acquired 200/214 Gray’s Inn Road for £133m at 6.4% (rent reviews imminent). West End: Redevelopment opportunities remain a market feature. GPE bought 35-50 Rathbone Place from Royal Mail for a major mixed use development to include 400,000 sq ft of offices. L&G bought 76-88 Wardour Street, with voids, for £32.3m and plans to redevelop and return 33,000 sq ft of Grade A space to the market by 2013. Regional: Office parks were purchased by an Asian fund in Reading and a European fund in Leeds for £141m and £130m respectively. Bristol also saw two offices change hands: Horizon House for £31m at 5.5% (leased to the government) and the Paragon sold for £26.5m at 6.6%.
- Industrial: A few portfolios sold, including the Flagstaff portfolio, in receivership from Lloyds, for £81m at 10% IY. This portfolio of secondary and tertiary assets attracted considerable investor interest. Several small distribution warehouses changed hands as leasing demand is improving for these assets as large occupiers take temporary space in the absence of larger units.

**Colliers view:** Transaction levels have improved, but year-end volumes are unclear as buyers review pricing. Funds have cash to allocate, but are looking for value. Secondary offers a big margin over borrowing costs, but depends on debt availability.

## Occupier markets

### RETAIL

- Consumer confidence is not improving. The GfK NOP CCI has been -30 or lower for three consecutive months. The high street is also under pressure as consumers increasingly shop online. ONS numbers for August show a 0.1% y/y decline in retail sales (ex-petrol), while non-store retailing grew by 13.8%. Internet sales have seen double-digit year-on-year growth for nine straight months. BRC reports a 0.3% rise in UK retail sales in September.
- The IPD retail void rate remains stable at 6.1%, little changed from 5.9% in March 2011. Colliers research also shows that the Central London void rate has fallen to less than 1%. Coffee shops and value retailers continue to expand rapidly, while other retailers continue to struggle. Alexon was bought out of administration by Sun Capital Partners who will look to turn the firm around.

**Colliers view:** Households continue to exercise caution as new economic uncertainties come to the fore. Retailers were not heartened by the UK Prime Minister's suggestion that consumers pay down debt on credit and store cards, especially with Christmas approaching.

### OFFICES

- Central London take-up in Q3 11 was up by 8% over the long term average at 3.1m sq ft driven by leasing in non-core areas. City: No significant new signings in September. Demand conditions remain soft as banks and other financial institutions continue modest restructurings. Prime rents are stable at £57.50 psf (non-tower) as Grade A supply decreases further. The City vacancy rate is 8.6%, down from 11.1% in Q4 10. West End: Headline rent is stable at £95 psf. Limited Grade A availability suggests little scope for further immediate increases although a few £100+ psf deals have been reported for smaller spaces. Debenhams has agreed a pre-let with BL for 145,000 sq ft at New East Quadrant near Euston, this will free up some 80,000 sq ft of space in Marylebone. Regional: Grade A vacancy rate continues to fall across all centres. In Birmingham and Leeds, a number of long standing requirements are reaching a decision point as lease expirations approach and options become limited. Net stock absorption remains positive for Grade A space across the 'Big Six' markets, although significant rental uplifts are not expected until late 2012.

**Colliers view:** A bedrock of small to medium sized lettings continues to support the Central London market, although the conversion of large Grade A requirements in core areas is sluggish. Regional markets continue to improve slowly.

### INDUSTRIAL

- Expansionary investment continues to gain little traction, although new government initiatives seek to increase funding, especially to SMEs. Export growth is also weak in line with a slowdown in world trade. Nevertheless, manufacturing purchasing manager indices improved slightly in September to 51.1 after skirting recessionary levels in July and August.
- Leasing demand is stable in the multi-let sector, although 'pent up' distribution leasing demand is inhibited by a lack of Grade A space. Large-scale occupiers are leasing small sub-optimal units on short leases in the absence of suitable accommodation. 'Design and builds' continue to come out of the woodwork, but are not yet a defining force in market development. Lease re-gears are also becoming a popular alternative to protracted rent review negotiations. Landlords are swapping incentives for long term stable income with inflation protection.

**Colliers view:** Sector continues to stabilise. Supermarkets and internet distributors are absorbing the remaining Grade A space. Large operators are taking smaller units on short leases to satisfy requirements. Pre-lets and D&Bs are still making only a small impact.

## Residential

- Derivative pricing remains relatively unchanged in September, suggesting a modest 2.5% decline for 2011. The Nationwide Index was up marginally at 0.1% m/m after August's 0.6% decline, while Halifax reported a 0.5% m/m decline in September. In contrast to UK figures, London house prices continue to show strong growth. Prices have increased by 20% since the beginning of 2009.
- Despite an improved mortgage approval rate (52,410 in August), the cost of borrowing and availability are still constraining the market. Rental rates continue to increase. Family homes are increasingly popular with buy-to-let investors as families outgrow small flats and remain priced out of the homebuyer's market.

**Colliers view:** House price stability remains very sensitive to interest rates, mortgage availability and wage growth. London continues to attract investors, particularly from Asia.

For further information, please contact:

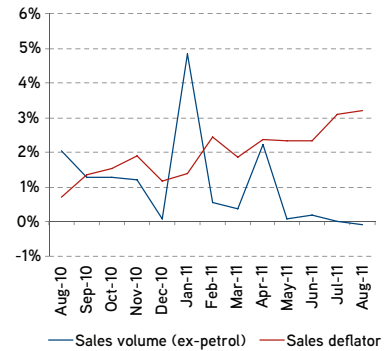


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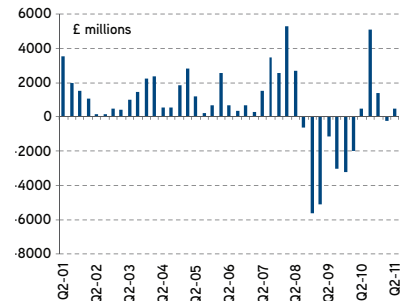
### RETAIL SALES VOLUMES GROWTH %PA



Source: ONS

"Internet sales have seen double-digit year-on-year growth for nine straight months."

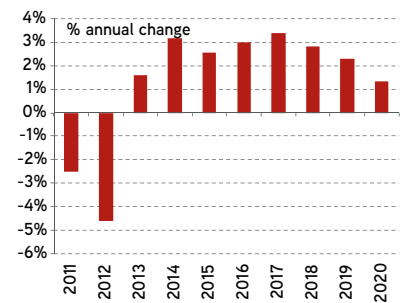
### NET UK INVENTORY CHANGE



Source: ONS

"Lease re-gears are becoming a popular alternative to rent review negotiations."

### RBS HPI DERIVATIVES: IMPLIED PRICE CHANGES



Source: RBS 11 Oct HPI, Colliers International

"Family homes are increasingly popular with buy-to-let investors..."



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