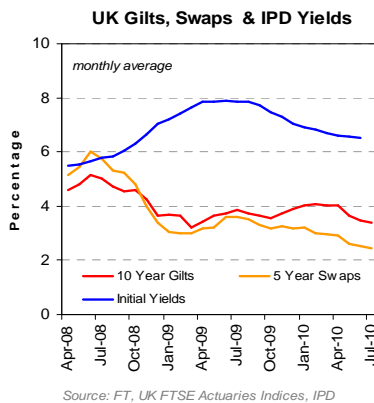


'Bank stress tests were criticised, but markets responded favourably.'

Economy

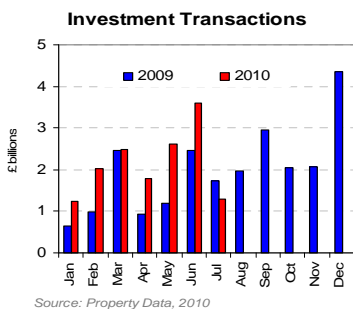
- The European bank stress tests were criticised for failing to account for sovereign default exposures and ill-defined tier-one assets. Nevertheless, markets responded favourably with credit default spreads falling across Western Europe; UK gilt rates rose as investors exited the UK safe haven and re-entered eurozone markets.
- Q2 10 GDP growth came in at 1.1% q/q (consensus 0.6%). Despite doubts about construction sector data (+6.6% q/q), services and manufacturing had strong gains of 0.9% and 1.6% q/q. Government was also up by 0.9% q/q with healthcare increases.
- Despite strong Q1 results, accommodative monetary policy will remain central to MPC thinking, at least until the impact of fiscal cuts in 2011 is clear. CPI and RPI eased further in June, to 3.2% and 5.0% y/y, down from 3.4% and 5.1% in May.
- *Colliers view: Doubts about provisional GDP figures are secondary to robust service sector growth results that suggest economic momentum. Employment is improving and retail sales suggest that household spending is making a greater contribution than expected. Q2 10 growth components are due out in late August.*



'Holiday lull has arrived, but YTD deal volumes are up by 45% over 2009.'

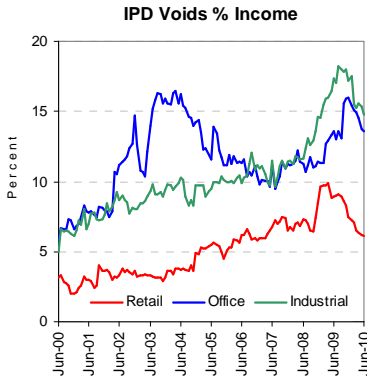
Investment

- The holidays have arrived with deal volumes down, but in line with previous years, although YTD totals are 45% up on 2009. The specialist sectors are active with Redfine's offer for five London Holiday Inns, Prupim's purchase of 44 Travelodges plus eight pubs, PHP's acquisition of 14 health centres, Lloyds/Max Properties JV purchase of North West hospital portfolio, a fund purchase of Norwich student accommodation and others. Competition for prime in the core sectors may be driving some of this activity.
- Retail: Few high street completions, but several prime assets are under offer with pricing generally stable: Oxford St. (Bershka) 4.6%; Newcastle (Superdrug) 5.25%; Leeds (H&M) 5.5%. Shopping centres: Quiet, although the N1 Islington completed for £112m at 5.3% and the St Martins portfolio is expected to come to market shortly. Retail parks: Funds continue to buy with Great Northern RP in Huddersfield (open A1 non-food scheme) selling for £44m at 5.9%; St Andrews Quay RP, Hull (B&Q anchor) going for £83m at 6.9%; and Weymouth's Jubilee RP £17.8m at 6%. Supermarkets remain a target with a Waitrose pre-let in Glasgow achieving £14.3m at 4.75%.
- Offices: City: Carlyle purchased the bulk of the Halabi portfolio for £671m. Aviva Tower is yet to be marketed. A few key sales have been withdrawn in the last month (e.g. Drapers Gardens, Watermark Place) as pricing issues weigh in. West End: UK funds purchased several short-leased properties with redevelopment angles; 24 King St. (£45m, exp. 2012); 5 Vere St. (£22m, exp. 2011); 11 Windmill St. (£15m, vacant). Regions: Hines completed on Brindleyplace (£190m at 7.5%) and Lancashire CC purchased Wellington Place in Leeds (£20m at 7.4%). Foreign funds less active, although Swiss AFIA is looking at Quartermile Two asset in Edinburgh.
- Industrial: Several deals indicative of the general market were completed in July with Prupim buying a Kuehne & Nagel distribution warehouse in Thatcham guaranteed by Heineken for £37.3m at 7.3%. A New Look warehouse in Newcastle-under-Lyme was also purchased by RREEF for £24.5m at 6.85%.
- *Colliers view: Despite the traditional summer lull, there is quite a lot of movement behind the scenes. Pricing remains stable as competition remains keen across the core and specialist markets.*



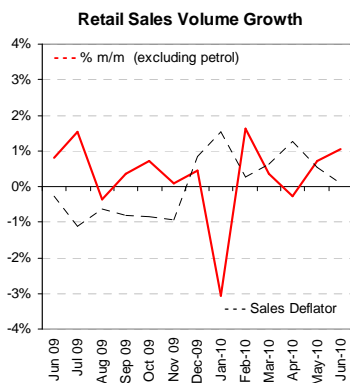
'Despite the traditional summer break, there is movement behind the scenes.'

Occupier Markets



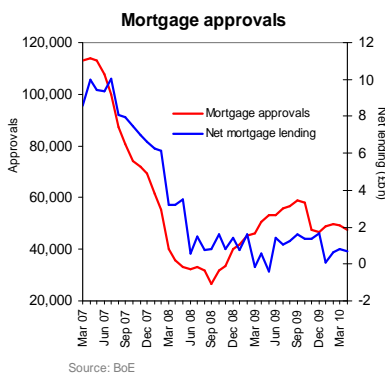
Source: IPD Monthly Index

'The BRC reports London like-for-like sales up 14.4% y/y in June.'



Source: ONS

'High profile office deals are masking the gradual slowdown in demand in Central London.'



Source: BoE

'Few signs of a mortgage market recovery as approvals remain generally flat since January.'



Accelerating success.

RETAIL

- ONS retail sales volumes (ex-petrol) grew 1.1% in June as the retail price deflator fell further to 0.1% with soft pricing increasingly appearing as a permanent feature of the market. BRC June UK sales figures show a 1.2% y/y like-for-like increase while London recorded a 14.4% increase showing the impact of strong tourist spend, discounting and good weather. CBI July survey suggests that growth may be stalling.
- The demand for prime London retail space remains very strong with very little vacant space around Oxford Street and Bond Street. Chanel is reported to have paid a £4m fee to secure a 25 year lease at £800 psf Zone A on Bond Street. The landlord paid circa £5m to Nicole Farhi to surrender the existing lease.
- *Colliers view: London continues to substantially outperform the UK, especially with consolidation of its luxury markets. Regional rents are weak but stabilising.*

OFFICES

- City headline rent remains at £52.50 psf but further uplifts are expected. UBS has confirmed its decision to pre-let a new building of 700,000 sq ft at 4 & 6 Broadgate. Joint owners of the estate, British Land and Blackstone, had been keen to retain UBS at Broadgate, given that the company employs over 5,000 in the City. Question marks continue to surround JP Morgan's move to its 'under construction' pre-let at Canary Wharf's Riverside South (1.5 million sq ft). A decision is expected in October.
- West End headline rents remain at £80 psf for the third consecutive month in the absence of any substantive new evidence.
- Regions: PRUPIM has pre-let a 120,000 sq ft HQ to bio-pharmaceutical services company Quintiles in Reading. Further Thames Valley deals look likely to boost Q3 take-up. Strong Grade A absorption in Birmingham and Glasgow.
- *Colliers view: City Grade A demand remains healthy with large floorplate availability shrinking and rents rising. West End is stable; few signs yet of further rental growth.*

LOGISTICS & INDUSTRIAL

- Demand remains patchy, although there is evidence of activity in the 'big sheds' market for units in the 200,000–300,000 sq ft range, especially in the Midlands. Demand is focused on established locations. Incentives steady at 12 months for 5 year term. Rental falls continue in locations where oversupply is an issue.
- *Colliers view: Established strategic locations remain best placed to take advantage of what demand there is. Development market remains stalled.*

Residential

- Land Registry reports that average house prices in England and Wales are now at similar levels to those seen in the summer of 2006. However, while Halifax reports a 0.5% m/m rise in July, Nationwide shows a -0.5% m/m price decrease and Rightmove states that average asking prices fell in the last month.
- Despite the abolition of HIPS and an increase in sales instructions, there is little evidence yet of an increase in mortgage availability with the Bank of England reporting 47,643 approvals, essentially unchanged since January.
- *Colliers view: Government austerity measures likely to have quantifiable negative impact upon prices. Worst case scenarios suggest house prices might not reach the levels seen at the last market peak for another decade.*

For further information please contact:

Walter Boettcher
+44 20 7344 6581
walter.boettcher@colliers.com

Kiran Raichura
+44 20 7487 1691
kiran.raichura@colliers.com

This report gives information based primarily on Colliers International UK plc data, which may be helpful in anticipating trends in the property sector. However, no warranty is given as to the accuracy of, and no liability for negligence is accepted in relation to, the forecasts, figures or conclusions contained in this report and they must not be relied on for investment or any other purposes. This report does not constitute and must not be treated as investment or valuation advice or an offer to buy or sell property. August 2010 ©

Colliers International is the licensed trading name of Colliers International UK plc. Company registered in England & Wales no. 4195561. Registered office: 9 Marylebone Lane, London W1U 1HL.