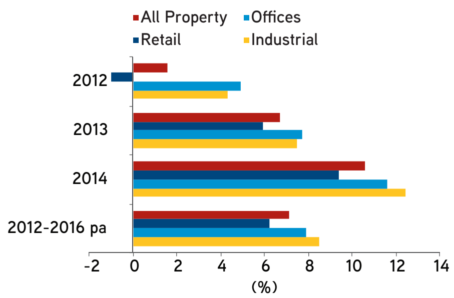
RESEARCH & FORECASTING UK

REIF IN BRIEF Q4 12

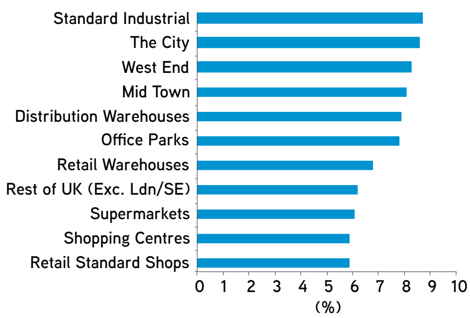
REAL ESTATE INVESTMENT FORECASTS

FIGURE 1: FORECAST TOTAL RETURN BY SECTOR



Source: Colliers International, IPD

FIGURE 2: TOTAL RETURN PER ANNUM BY SUBSECTOR 2012-2016



Source: Colliers International, IPD

FIGURE 3: ERV GROWTH PER ANNUM BY SUBSECTOR 2012-2016

Source: Colliers International, IPD

All Property Forecasts

- The UK emerged from recession strongly in Q3 12, growing by 1% Q/Q as one-offs and the net trade position provided a boost. Consensus is for a minor contraction in Q4 12, but employment has been improving, reaching to 29.6m in Q3 12. As a result, the total number of hours worked increased to 945.3m, the highest number of hours worked since Q1 08. However, real disposable income, which saw spectacular growth in Q2 12, is likely to contract over the full year as inflation is still stubbornly above the target.
- The commercial property market has had a tough 2012, particularly the retail sector, which has seen a raft of administrations. Colliers International's forecast for 2012 has remained unchanged from Q3 12, at 1.6%, but our outlook for 2013 has been trimmed back due to uncertainty derived from the US "Fiscal cliff" negotiations and forthcoming elections in the eurozone's largest and third largest economies. As a result, the all property total return has been downgraded to 6.7% from 8.8% previously. All property investment for Q4 12 to the end of November hit £4.5bn on 170 transactions, up 33.2% from the same period in 2011. Overseas investors took 60.9% of the market share.

FORECASTS

All Property Forecast Summary	2012	2013	2014	Annualised 2012-2016
ERV Growth (% pa)	-0.7	-0.2	2.0	0.9
Equivalent Yield (% eop)	7.2	7.2	7.0	6.8
Capital Growth (% pa)	-4.0	0.7	4.0	1.0
Total Return (% pa)	1.6	6.7	10.6	7.1

Retail Forecast Summary	2012	2013	2014	Annualised 2012-2016
ERV Growth (% pa)	-1.9	-1.2	1.9	0.6
Equivalent Yield (% eop)	6.8	6.8	6.6	6.5
Capital Growth (% pa)	-6.5	-0.2	3.1	0.2
Total Return (% pa)	-1.0	5.9	9.4	6.2

Offices Forecast Summary	2012	2013	2014	Annualised 2012-2016
ERV Growth (% pa)	1.2	1.2	2.4	1.5
Equivalent Yield (% eop)	7.2	7.1	7.0	6.8
Capital Growth (% pa)	-0.2	2.3	5.3	2.2
Total Return (% pa)	4.9	7.7	11.6	7.9

Industrial Forecast Summary	2012	2013	2014	Annualised 2012-2016
ERV Growth (% pa)	-1.0	0.0	1.5	0.8
Equivalent Yield (% eop)	8.6	8.6	8.3	8.2
Capital Growth (% pa)	-2.5	0.4	4.6	1.2
Total Return (% pa)	4.3	7.5	12.4	8.5

Source: Colliers International, IPD

Retail

- The retail industry has had a tough 2012, with 52 retailer administrations in the first 11 months of the year. The survival rate of stores – number of stores remaining trading after an administration – has been falling each quarter this year. However, next year is shaping up to be slightly better with 1.2% forecasted growth in GDP and lower inflation. For the retail sector, there are still headwinds holding back a recovery in capital values, such as online and mobile shopping, high vacancy rates and delayed business rates revaluation. As a result, we have lowered our forecasts for 2013 to accommodate mild capital value contraction, resulting in a total return of 5.9% for the year. Rental values are expected to contract by 1.2%, down significantly from our previous forecast.
- Investment in the retail sector over October and November has reached nearly £2bn in 47 transactions. This is up 94.4% on the same period in 2011. The largest investment this quarter has been Norges Bank's acquisition of London & Stamford and Green Park Investment's 50% stake in Meadowhall for £762.5m in October, valuing the shopping centre at just over £1.5bn and a yield of 5.1%. Westfield Group has received forward funding of £200m for Westfield Bradford from Meyer Bergman, which will be managed by the Australian group once completed. The largest portfolio changing hands this quarter was the Star Portfolio (four retail parks including development land) bought by Hammerson for £254.5 at a 7% yield. The majority of activity in the retail sector has been outside of London, an encouraging sign that investors are looking for opportunities further up the risk curve.

Offices

- The insurance district in the City of London is set to expand as firms take more space and pre-lets in new towers. In November, Jardine Lloyd Thompson acquired 280,000 sq ft at St. Botolph Building, the largest letting in the City this year, an increase from their current premises of 160,000 sq ft. Ascot Reinsurance will join several other insurance firms at the Walkie Talkie with their pre-let of nearly 30,000 sq ft. However, the amount of City office space under construction will likely hurt rental growth potential over the coming years. Central London rental growth has been downgraded from between 4-5% in 2013 to 3-4%, while offices outside of the capital will continue to see rents contract. Total return for the office sector in 2013 is likely to be just below 8%, which will outperform the other commercial property sectors.
- Investment activity in the office sector over October and November has totalled over £2.3bn in 83 transactions. This is up 33.5% on the same period last year. Overseas investors have made up about 80% of the office investment, purchasing over £1.9bn worth of UK offices. Blackstone bought 1-11 John Adam Street for £260m at 7.5%, which will be more than half vacant next year as the Department for Work & Pensions vacates the building. China Investment Corporation spent £245m on Deutsche Bank's City HQ at 1 Great Winchester Street, achieving a 5.5% yield, while Oxford Properties invested £110m in Paternoster Square, also achieving 5.5%. Outside of London, the office sector remains relatively quiet, but should pick up in the second half of 2013 as economic growth returns to the UK.

Industrial and Logistics

- The outlook for the logistics and industrial sector in 2013 has been downgraded from Q3 as capital growth expectations have been reined in. The market remains quite risk averse, as investors look for good quality product, which is in short supply. Nevertheless, speculative development is occurring in small amounts in West London and the South East. Rents have remained static this year and will likely be flat in 2013. Total return for the sector is expected to be between 7-8% next year with capital growth being a variable dependent on an improvement in risk appetite.
- In October and November, investment in the industrial sector reached £531m in 35 deals, which is up 22.9% on the same period in 2011. Investors continue to look at portfolios as a way to diversify risk in the industrial sector. CBRE Global Investors spent £64m on two multi-let industrial estates, two distribution warehouses and three retail warehouses in Greater London and the South East. US-based Kennedy Wilson acquired the Ruby portfolio of secondary offices and industrial sites, for £57.5m, valuing it at a 14% yield. Until risk aversion recedes, only portfolios and high quality estates will continue to attract bids in 2013.

520+ offices in 62 countries on 6 continents

United States: 147
Canada: 37
Latin America: 19
Asia Pacific: 201
EMEA: 118

LONDON
50 George Street
London W1U 7GA
+44 20 7935 4499

VALUATION
Russell Francis
+44 20 7344 6801
russell.francis@colliers.com

FUND MANAGEMENT
Nigel Holroyd
+44 20 7487 1719
nigel.holroyd@colliers.com

NATIONAL INVESTMENT
André James
+44 20 7344 6707
andre.james@colliers.com

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

Rahim Jiwani
+44 20 7344 6930
rahim.jiwani@colliers.com

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