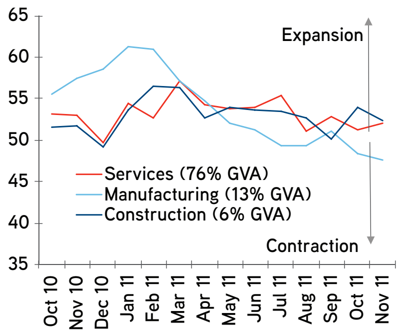
RESEARCH & FORECASTING UK

PROPERTY SNAPSHOT

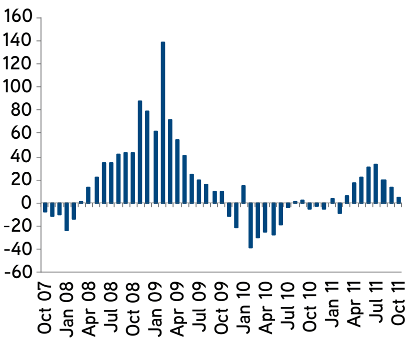
PURCHASING MANAGER INDICES



Source: CPI/Markit

"The latest PMI data suggests a Q4 11 GDP contraction."

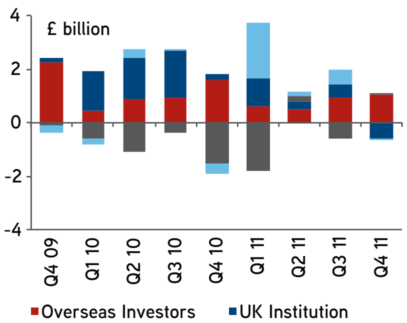
CLAIMANT COUNT (MONTHLY CHANGE X '000)



Source: ONS

"A few large deals will complete, but 2011 volumes will struggle to reach £30bn."

NET VALUE OF INVESTMENT



Source: Property Data Ltd

"UK institutions are net sellers of property so far in Q4 11."

Economy

- UK recession is likely, although a deep recession is not, unless eurozone instability creates a new international financial crisis. Co-ordinated interventions by central banks improved eurozone liquidity; bond yields fell and equities rallied, but the threat of a collective eurozone downgrade and the downgrading of French banks by S&P has introduced new instability. The market response to new eurozone agreements is not yet clear.
- UK purchasing manager indices suggest flat or negative GDP growth in Q4 11. Services sector indices improved marginally in November from 51.3 to 52.1, but manufacturing indices fell from 47.8 to 47.6. Employment is also weak; the claimant count rose for the eighth consecutive month and stands at 1.6m – the highest since January 2010.
- Inflation may have peaked with CPI down at 4.8% and RPI down at 5.2% in November. These figures are widely expected to fall rapidly at the beginning of 2012 as the 'base effects' from the VAT rise in January 2011 fall out of the equation.

Colliers view: Uncertainty about the UK's economic prospects and eurozone financial issues continue to restrain capital investment and consumer spending.

Investment

- Investment transaction volumes show few signs of a strong year end. A few large deals may complete by year end, but volumes will struggle to reach £30bn, in contrast to £35bn in 2010. Early indications of UK fund redemption pressure is materialising with inflows declining substantially in October and November. According to Property Data Ltd, UK institutions are net sellers of property so far in Q4 11. De Montfort University reports that the proportion of banks willing to undertake new lending to real estate has fallen from 57% at the beginning of 2011 to 43%.
- Retail: Another New Bond Street shop changed hands at a sub 3% IY; Tribecca Holdings paid £11.6m for the Hublot shop. Outside London, pricing is stable with deals in Glasgow (Nike) and Oxford (Tesco, Debenhams, et al.) selling at 5% and 5.1% IY respectively. Shopping Centres: The 'best of secondary' is moving with deals concluded in Blackpool, Chelmsford, Nottingham and Ealing — all dominant centres in their catchments and with reliable tenants. Yields ranged from 6.5% in Ealing to 7.75% in Chelmsford. Retail Warehouses: A few prime assets came to market with BA Pension Fund selling Avonmeads RP in Bristol (unrestricted A1) for £32m at 5.1% yield and Straiton RP in Edinburgh for £24.5m at 6.15%. The Crown Estate also forward funded the MK1 RP scheme in Milton Keynes for £56m at 5.45%.
- Offices: City: Several City assets remain under offer, although Drapers Gardens and 1 Dunhill Place are understood to be 'wobbling' with foreign investors reviewing pricing. Prime yields though are stable at around 5.25% with Cheapside and Christchurch Court still under offer. West End: Few sales completed with the exception of Orchard Street's purchase of 61-65 Conduit Street for £36m at a yield of 4.7%. Development sites continue to move; a private Russian investor bought 50 St James's Street for £70m with planning to develop a hotel/spa; a propco also bought 20 Bedfordbury, WC2 (vacant) for £15m. Regional: Foreign investors bought assets. Deka Immobilien purchased 10-15 Livery Street, Birmingham (10 years to Direct Line) for £22.5m at 6.4% yield; Kuwaitis bought a Cambridge business park for £21.5m at 8.65% and Nottingham's Chapel Quarter for £20m at 8.5%; and Oxford Properties bought Green Park in Reading for £408m at 8.16% yield.
- Industrial: A few distribution warehouses were traded in November. Brinklow in Milton Keynes (Waitrose 17.5 years) sold to a private investor for £38.4m at 6%. Likewise, a Gazeley shed (168,000 sq ft) with a new 25-year lease sold to Aberdeen Asset Management for £16.5m at 5.7%. Three large portfolios being sold by London & Stamford, UKLF and ProLogis are understood to be under offer. They total around £750m and sales are imminent. The multi-let sector is quiet, although Mole Business Park in Leatherhead sold for £38.1m at 7.3% to Rockspring.

Colliers view: Investment volumes remain limited. A few large-scale City deals have fallen through, although others that are likely to complete suggest that prices are stable. Foreign buyers continue to support prime values and have bought a few regional assets, although it is too soon to call it a trend. Better secondary shopping centre assets are moving.

Occupier markets

RETAIL

- ONS data suggests little sales growth this year; the retail sales index in November 2011 was 102.6, unchanged from 102.6 in January 2011. Household spending is also flat at 0.0% q/q in Q3 11. Trading conditions remain tough. More names are being added (Alexon, Barratts, Hub and Walmsley) to the list of administrations and another set of major retailers is rumoured to be in trouble.
- According to IPD, retail rents have fallen in all but three of the last 42 months; Colliers International forecasts a further fall of 1.8% in 2012. Administrations and lease surrenders pushed the IPD retail void rate up by 100 bps since January to 6.2%, although this is still well below the 9.9% peak in April 2009. Most landlords, though, are bracing themselves for further stress.

Colliers view: Retail sector performance is not improving, more administrations are expected and rental declines continue as landlords brace themselves for further stress.

OFFICES

- City: Morgan McKinley reports a 42% y/y fall in City job vacancies in November. Banks, foreign exchange traders, equity brokers and hedge funds are all releasing staff. A few high profile requirements may boost take-up, but net absorption is likely to grow only modestly as landlords juggle tenants between buildings and create opportunities to refurbish vacated space.
- West End: Telefonica and Halfords Media are taking space at the Crown's AirW1 building – 60%+ of the scheme has let within six weeks of completion. Rents are being set on a 'building by building' basis rather than by submarket; AirW1 and 24 Great Pulteney Street are rumoured to have achieved £90 psf and £100 psf respectively – new submarket records.
- Regional: Demand is linked to churn/upgrading rather than expansion. Absorption is positive across most markets although vacancy rates are still in double digits. Birmingham is showing strength with a few high profile lettings and in Edinburgh the EICC is attracting interest. The Thames Valley is also active with interest from media and pharmaceutical companies.

Colliers view: Despite economic weakness, the lettings market has been seeing more activity. Rents are stable and in the West End are increasingly linked to specific buildings, rather than to individual submarkets.

INDUSTRIAL

- Industrial sector occupier markets continue to be buffeted by economic weakness, although the absence of new development over the last three years means that Grade A space is in short supply and rents are more stable than might otherwise be expected. Business investment, especially by SMEs, continues to find little traction with PMI data suggesting outright contractions in manufacturing output in Q4 11 and Capital Economics suggesting that 40,000 jobs could be lost. These trends are less apparent in the South East where leasing demand for multi-let industrial and distribution warehouses remains steady.
- South East take-up is likely to match 2010 levels with West London showing strength. Despite high profile lettings, regional performance is mixed with Scotland, Yorkshire & The Humber, the West Midlands and Eastern regions already exceeding 2010 take-up, while the North West, South West, East Midlands and London as a whole look set to undershoot 2010 figures.

Colliers view: Recovery continues to be slow, although West London and the South East continue to see strong demand for prime locations. Limited supply of distribution sheds is creating demand for 'design and build' projects.

Residential

- The Nationwide Index was up again in November for the third consecutive month at 0.4% m/m; the Halifax Index fell by 0.9% m/m. Nationwide also shows a 1.7% y/y increase, while Halifax shows a -1.6% decrease. On average, prices look to be static over the course of 2011. Mortgage approvals increased to 52,743 in October. Despite slow progress, approvals are up by 25% over December 2010, although October's figure is still a fraction of the peak of 128,071 in November 2006.
- Santander has launched a new 'buy-to-let' mortgage. Maximum LTVs in the sector are 75% with interest rates at between 4% and 5%; loans with 60% LTVs are being offered as low as 3.25%. In Central London, foreign investor interest in prime looks increasingly indiscriminate as prices remain a secondary consideration.

Colliers view: House prices are stable, lending volumes and terms are not improving. London continues to outperform.

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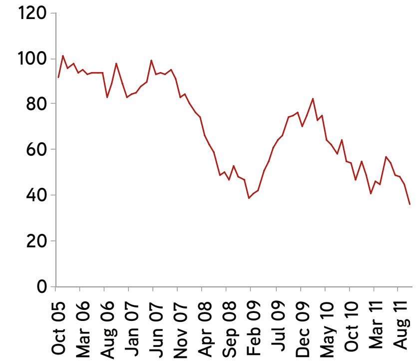
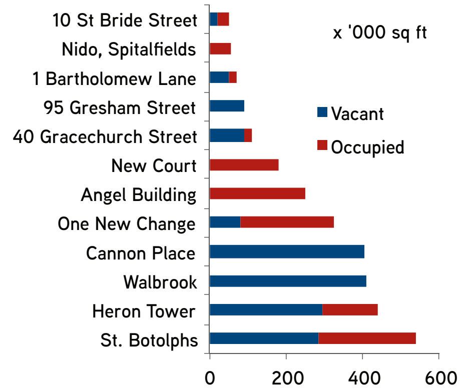
NATIONWIDE CONSUMER CONFIDENCE



Source: Nationwide

"Another set of major retailers is rumoured to be heading into administration."

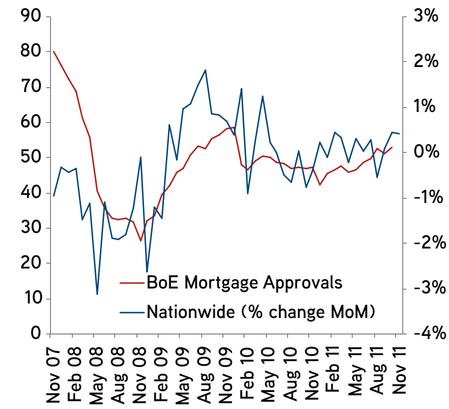
CITY COMPLETIONS 2010-2011



Source: Colliers International

"Rents are being set on a 'building by building' basis, rather than by submarket."

HOUSE PRICES & MORTGAGES (MONTH ON MONTH X '000)



Source: Halifax, BOE, Colliers International

"Foreign investor interest in London prime residential looks increasingly indiscriminate."