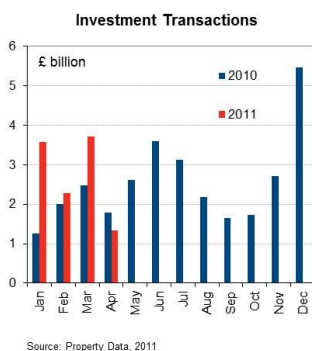


“GDP growth for Q1 11 (0.5% q/q) fell short of market expectations.”



“Consensual and receivership sales are becoming a feature of the market.”



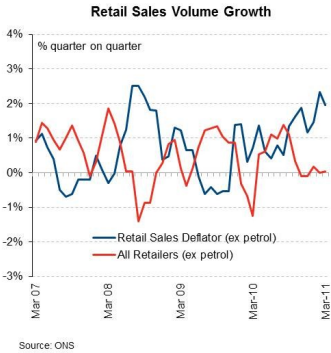
“If the SWIP purchase completes, it will be the first institutional purchase on Oxford Street in six years.”

Economy

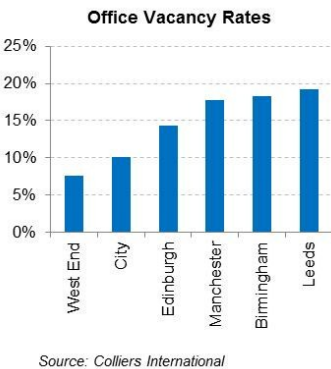
- The first estimate of GDP growth for Q1 11 (0.5% q/q) fell somewhat short of market expectations and has contributed to a general market reassessment of the downside risks to the UK economy, diminished expectations of near term base rate hikes, and a more benign view of inflation. PMI indicators are also showing a weakening trend.
- CPI and RPI remain elevated in March at 4% and 5.3% respectively. Nevertheless, market data suggests that the first rate hike is unlikely until November 2011; HSBC sees the first rise in Q1 12. Mervyn King's view that inflation is linked to transitory external factors appears to finally be finding a receptive audience. April wage settlements have so far averaged 2.5%, while the commodities markets are in the midst of a large scale sell-off.
- Ten year gilts have fallen by almost 40 basis points in April due to weakening UK economic expectations, but also due to new safe haven flows as a consequence of S&P's downgrade of US debt to a negative outlook, new worries about who will pay for future eurozone bailouts and continued international political instability. The spread between UK 10 year gilts and the German bund has narrowed substantially.
- *Colliers view: Increasingly sober UK economic views are impacting interest rate and base rate expectations. Inflation is expected to fall as short term impacts of commodity price rises and VAT increases work their way through the system.*

Investment

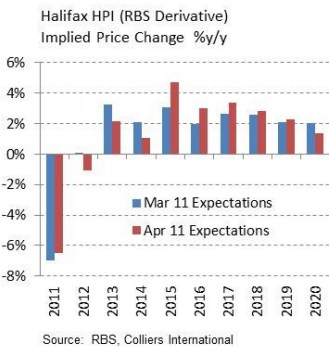
- The excellent weather, the long Easter break and the royal wedding seem to have disrupted whatever market momentum may have been building. Nevertheless, Property Data figures suggest that, despite the slowdown, April transactions were generally in line with April 2010. Year-to-date investment volumes are still up by 45% on 2010 with around £11bn transacted so far, although many Q1 11 deals were 'overhangs' from 2010. Consensual and receivership sales continue, with the last of the Halabi portfolio being sold. Administrators are also selling assets from the Kenmore Property Group, and Lloyds is reported to have 38 properties worth around £60m on the market at a collective yield of 9%. NAMA, the third largest lender to UK property, announced its intention to sell around €2.5bn of UK property assets over the next three years.
- Retail: High Street: Foreign private investors continue to dominate and bid up West End prices, although if SWIP completes on 192 Oxford Street (£19.1m at 4.25%), it will be the first institutional Oxford Street purchase in the last six years. Interest outside of London remains strong and prime pricing is firm, although opportunities are limited. Shopping Centres: Anecdotal evidence suggests that the pace of stock coming to the market is increasing, with activity expected to accelerate in late summer. Yields on secondary are already moving out as investors become far more discerning. Retail Warehouses: Not much activity in April, although Gateway Shopping Park in Trowbridge was sold to Standard Life for £20.7m at 5.7% IY. Supermarket transactions included only one noteworthy deal - a Cardiff based Tesco sale and leaseback with RPI indexation for £67m.
- Offices: City: Aviva Tower (the last of the Halabi portfolio) was sold by receivers to a foreign private for £288m at an initial yield of 5.4%. Foreign private investors are actively looking for smaller lot sizes as evidenced by bidding on 38 Threadneedle Street which was offered at 5.3% yield and is under offer at 5% (£22m). West End: Few deals completed in April, although interest remains high for sites with redevelopment possibilities (e.g. receivers sold 66 Chiltern Street for £63m for residential conversion). Regions: Little large-scale activity, although the sale of The Mailbox, a mixed use scheme in central Birmingham, for £127.1m was completed. Also in Birmingham, Hines confirmed that it acquired and will fund the completion of Phase 2 Snowhill.
- Industrial: The market is quieter than March, with Property Data showing only £50m of transactions. South east multi-let industrial remains strong and will be tested as SEGRO brings a mixed West London portfolio to market.
- *Colliers view: More stock is coming to the markets through receivers and will test the appetite for secondary assets. Prime remains the main investor targets, but in the absence of this stock, institutional investors are softening their criteria.*



“Retailers are re-thinking property strategies as consumer habits change.”



“Office lettings have been agreed at over £100 psf in the West End.”



“The housing market remains sensitive to interest rates, mortgage availability and wage growth.”



Accelerating success.

Occupier markets

RETAIL

- Consumer confidence remained very low (-24.2) in April according to the Eurostat survey, the lowest since March 2009. Retail trade confidence also fell significantly from +4 to -14. ONS retail sales (ex-petrol) were flat over Q1 11 as consumers feel the squeeze from falling disposable incomes. Fine April weather may breathe some life into sector performance.
- Focus DIY is in administration after a long period of uncertainty. Customers may end up out of pocket as orders are not being delivered. Landlords are deemed unlikely to give much away in any negotiations as B&Q, Homebase and The Range have all expressed interest in taking units from the 181 outlet portfolio. Mothercare also announced that it is selling 121 outlets as UK retailers continue to rethink property strategies in light of changing consumer habits.
- *Colliers view: The retail sector continues to struggle with tenants and landlords under pressure from weak trading conditions and pressure from internet sales.*

OFFICES

- City: Financial services employment growth fell by 0.4% in Q4 11 after two quarters of expansion. This may explain a slowing of leasing transactions. Headline prime rents remain stable at £57.50 psf. West End: The highest quarterly take-up in four years was reported in Q1 11, although the figures are skewed by a few large deals. Lettings have been agreed at Hine’s 1 Grafton Street in excess of £100 psf. Regional: Q1 11 take-up figures for all regions are generally flat as the leasing markets remain sluggish. The impact of public sector employment cuts is already apparent, although there are numerous private sector ‘requirements’.
- *Colliers view: Premium leasing deals underscore the lack of Grade A space in the West End, although the City office market is less pressured. Regional markets are sluggish.*

LOGISTICS & INDUSTRIAL

- Improvements in the manufacturing and industrial production sectors have not translated into a sustained demand for new industrial lettings. Leasing demand for distribution sheds is good, but only for prime product in the best locations where rents remain buoyant. Secondary stock is moving very slowly. Retailer demand has cooled as expansion plans are buffeted by tough trading conditions and limited profitability. Europe is becoming a new focus for expansion.
- *Colliers view: Sector economics remain positive, although demand remains weak as operators hesitate to commit to expansion, especially retailers with weak profit expectations.*

Residential

- The housing market remains weak with Halifax and Nationwide reporting q/q growth of -2.3% and +0.6% respectively. The RBS Halifax Index derivatives market shows some flattening of price expectations; the implied total decline for 2011 fell from -7% in March to -6.5% in April and implied growth in 2012 fell from 0% to -1.1% suggesting a less intense, but longer period of malaise. Mortgage approvals remain stable at 47,557 for the third successive month.
- The Nationwide first time buyer affordability index shows that in Q4 10, mortgage payments as a percentage of take home pay fell to 34.1% for the UK - very near the long term average of 33.1%. The house price to earnings ratio fell to 4.3 well above the long term average of 3.3. These figures suggests that first time buyer demand in the UK housing market remains very sensitive to mortgage costs and base rates.
- *Colliers view: UK house prices remain very sensitive to interest rate levels, mortgage availability and wage growth. Further price declines are expected in 2011.*



For further information, please contact:

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

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