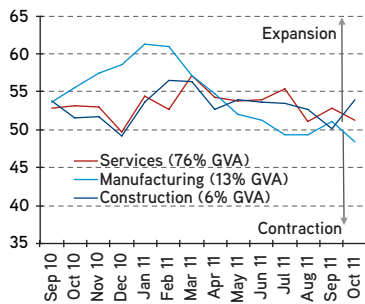




RESEARCH & FORECASTING UK PROPERTY SNAPSHOT

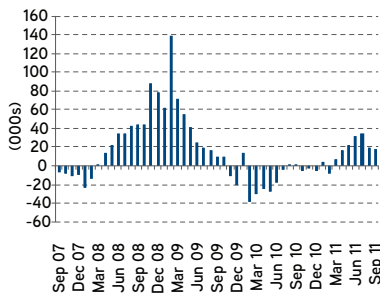
PURCHASING MANAGER INDICES



Source: CPI/Markit

“The latest PMI data suggests a Q4 11 GDP contraction.”

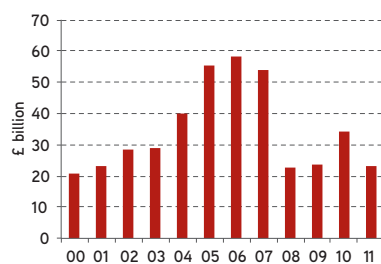
CLAIMANT COUNT (MONTHLY CHANGE)



Source: ONS

“The Bank of England Credit Conditions Survey suggests little improvement in real estate lending.”

INVESTMENT TRANSACTIONS



Source: Property Data, 2011

“Numerous large-scale assets are understood to be under offer in the City.”

Economy

- Preliminary GDP growth for Q3 11 surprised to the upside at 0.5% q/q, although it looks increasingly likely that this will be revised down. Growth was attributed to service and financial service sector expansion, but the latest PMI indices suggest a weaker profile going forward. Services PMI fell from 52.9 in September to 51.3 in October. Capital Economics is forecasting a new recession beginning in Q4 11.
- Government austerity plans are impacting; public sector employment fell by 72,000 in Q2 11; private sector employment also contracted by 4,000. The consumer economy remains weak; wage growth remains very weak and household disposable income was down by 3% y/y in August. The saving ratio also rose in Q2 11 to 7.4%, indicative of the extent of household uncertainty.
- CPI and RPI fell in October to 5.0% and 5.4% respectively; core inflation was slightly up at 3.4%, but most observers believe that inflation will fall rapidly in early 2012.

Colliers view: Despite a positive Q3 11 GDP outturn, uncertainty about UK economic prospects, eurozone fallout and financial issues continue to restrain capital investment and consumer spending.

Investment

- The BoE Lending Conditions Survey shows little improvement in lending over Q3 11 and little improvement expected in Q4 11. Investment volumes continue to disappoint with only £1.25bn in deals reported in October, down by over 50% on October 2010. Overseas investors account for over half of all October transactions by value; they also accounted for all £100m+ deals: the Morgan Hotels sale and leaseback for £190m (North American); the Verizon HQ in Reading for £140m (Asian); and the North Wharf Gardens development site in Paddington for £121m (Middle Eastern).
- Retail: Overseas investors continue to support prime London shop pricing with purchases at 187-195 Oxford Street (Boots) for £53.5m at 4.5% IY and 100 Knightsbridge, where the McLaren shop was sold to a HK investor for £11.5m at 3.3%. Very few transactions were recorded outside of London. Shopping Centres: Secondary assets continue to move slowly as investors grow nervous that pricing will shift out further. Helical Bar bought a 25 acre freehold in Corby town centre (shopping centre, retail parade and retail park) for £69.9m at 7.8% IY. In Hounslow, Angelo, Gordon & Co specialising in distressed assets, purchased the Treaty Centre for £37.5m at 9% IY. Retail Warehouses: Available stock continues to be secondary and trading at yields of between 6% and 8%. Funds purchased several sub £10m retail parks ranging from Barnstaple to Inverness, mostly with dominant DIY or homewares operators. Supermarkets: Yields remain well below 5% with the Sainsbury's sale in Tooting to SWIP completing for £22.1m at 4.4% IY; otherwise few assets changed hands.
- Offices: City: Some £5bn of Central London assets were on the market in September with some expecting prices to weaken. Few deals completed in October, although numerous offers have been made for several prime large-scale City assets (e.g. 1 Dunhill, 60 Threadneedle Street, 107 Cheapside, Tower 42, Drapers Gardens). Reported bid levels suggest prices are stable, pressured by foreign interest. West End: Middle East investors bought 11 Belgrave Road (government lease) for £55m at 6% IY and 37-41 Bedford Row (15-year lease to a legal firm) for £14.6m at 5.2% IY. Frogmore also bought a 25% stake in the Centre Point development. Regional: Aside from the Reading deal, several small office parks changed hands in Cardiff, Peterborough and Newcastle with yields ranging from 6.4% to 7.5% IY. USS purchased a Heathrow office park (Fujitsu, Heinz, United Biscuits) for £56.3m at 9.2% IY. Offices were also purchased by funds in West Bromwich for £14.9m at 7.6% (15-year lease to BT) and Cardiff £14.3m at 7% (Deloitte/Hays/Network Rail) and to a private investor in Manchester £17.5m at 7.5% (Regus).
- Industrial: Very few October transactions aside from the Flagstaff portfolio sale to Telereal Trillium who bought the distressed assets from Lloyds for £45m at 11%. A few multi-let facilities changed hands in Park Royal for £13.8m at 5.7% and at Aztec West in Bristol (Vodafone, Co-op, et al) for £10.4m at 11% IY.

Colliers view: Investment volumes remain low although several large-scale City assets are under offer with prices stable; foreign buyers are sustaining prime values. Outside London activity is limited to smaller assets across the commercial segments and a handful of distressed portfolios.

Occupier markets

RETAIL

- Retail trading is tough. While ONS data shows that September sales rose 0.8% m/m, quarterly sales were flat at only 0.3% q/q. CBI data is mixed with short term indicators suggesting an improvement in the run-up to Christmas. Long term trends though reflect weak consumer confidence, higher savings ratios and limited income growth. Crate and Barrel cancelled its UK debut and Best Buy is closing all 11 UK outlets, although others continue to plan for expansion. Retail shares continue to see short selling with substantial percentages of shares reported to be 'on loan'.
- The IPD retail void rate fell from 6.1% in August to 5.9% in September, but the prevalence of 'business rates only deals' remains high as landlords seek to keep tenants on pitches with high vacancy rates. IPD retail rents fell 0.17% in September and are still 10% down since the first mid-2008 declines.

Colliers view: Retail is suffering from uncertainty about the durability of consumer spending. Outside London, rental decline continues and high void rates plague many high streets.

OFFICES

- City: Headline rents and incentives are unchanged since the end of 2010 at £57.50 psf and 12-15 months rent free. The vacancy rate and availability are also unchanged since June 2011 at 9.5% and 8.9m sq ft. The leasing market is in equilibrium with limited supply and limited demand. Completion dates for new space are also slipping (e.g. the Pinnacle appears to be shut down for winter). West End: Market indicators moved little in the last six months with headline rents and incentives stable at £95 psf and 12-15 months rent free. Availability is stable at 4.7m sq ft, although the vacancy rate rose marginally from 5.8% to 5.9%.
- Regional: Little change in October: Availability in the 'Big Six' has fallen by 12% since the end of 2010, while the vacancy rate fell from 16.1% to 15.3%. The Thames Valley and Northern M25 are seeing improved demand, especially from new media and pharmaceuticals.

Colliers view: Small to medium sized lettings are supporting the London market; conversion of larger core area requirements is sluggish. Regional markets continue to improve.

INDUSTRIAL

- Exporters are struggling as goods volumes (excluding oil and erratics) to the EU fell by 3% m/m. Manufacturing PMI indicators also suggest a Q4 11 contraction. Industrial production was flat in September. Coupled with weakness in the retail sector, the prospects for leasing demand in the multi-let and distribution sectors remain dim, although the South East continues to fare better.
- Leasing demand in the multi-let sector is stable, although deals are taking a long time to complete as decisions are referred back iteratively to company boardrooms for scrutiny. Negative sentiment is weighing heavily on the market. Nevertheless, SWIP and Goya Developments have partnered to produce the first speculative multi-let leasehold development in West London since the downturn. Distribution letting is active in the South East with several deals concluded around Heathrow.

Colliers view: Recovery continues to be a slow, uncertain process, although West London, Heathrow and the South East continue to surprise with strong demand for prime sites.

Residential

- The Nationwide Index rose again in October by 0.1% m/m as did the Halifax Index at 1.2% m/m. Year on year index figures show modest contractions of -0.9% y/y and -0.6% y/y. Mortgage approvals fell in October from 52,347 to 50,967 while mortgage interest costs for first time buyers increased from 2.92% to 3.04% (75% LTV) according to BoE. The RBS Halifax derivative pricing curve shows little change despite new concerns about the economy. London continues to see strong safe haven flows into the top end residential market. Prices remain buoyant with developers expecting to sell over 50% of new product to foreign investors. According to the FT, the mortgage securitisation market may be finding its feet again with some £40bn issued by British banks this year. New issuances are planned by Investec, Lloyds and Paragon (buy-to-let lender). The market remains thin, but appetite is increasing.

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



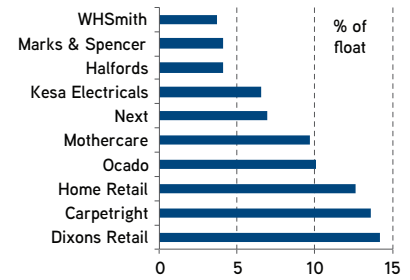
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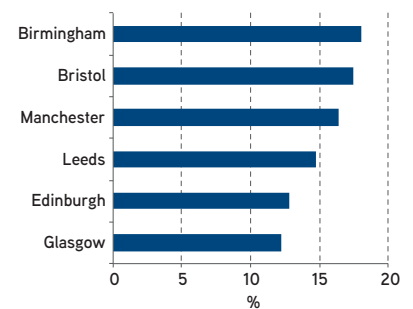
TOP FTSE RETAIL STOCKS ON LOAN



Source: DataExplorers, October 2011

"Shares of selected major retailers continue to see short selling . . ."

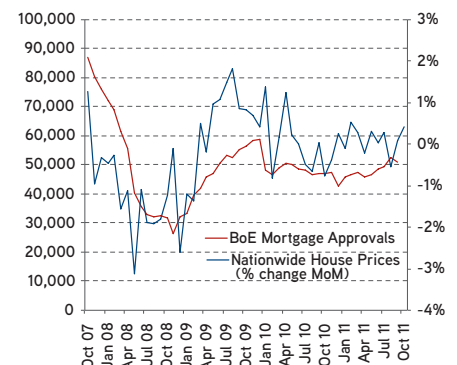
OFFICE VACANCY RATES Q3 11



Source: Colliers International

"Availability in the 'Big Six' has fallen by 12% since the end of 2010."

HOUSE PRICES & MORTGAGES (MONTH ON MONTH)



Source: Haver Analytics

"The mortgage securitisation market may be finding its feet again . . ."



Accelerating success.