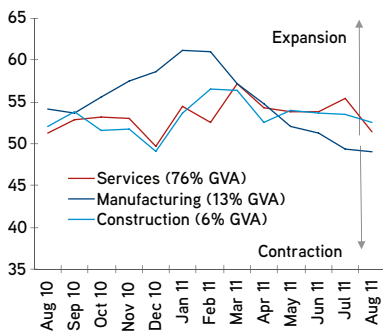




RESEARCH & FORECASTING UK PROPERTY SNAPSHOT

PURCHASING MANAGER INDICES



Source: CIPS/Markit

“Weighted PMI indices suggest a 0.2% q/q contraction in Q3 11 GDP.”

Economy

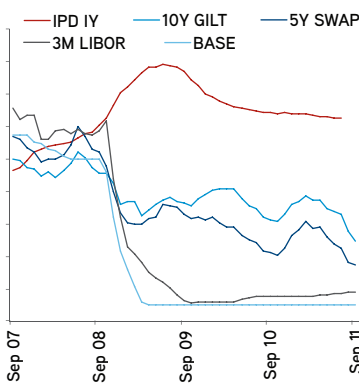
- Q2 11 GDP was confirmed at 0.2% q/q, with weakness attributed to temporary factors. The likelihood of a strong Q3 11 bounce back as temporary factors ‘unwind’ is diminishing as PMI indicators show a weakening profile in August. The services index fell sharply from 55.4 to 51.5 and the manufacturing index fell further from 49.4 to 49 suggesting contraction. Worryingly, the weighted indices are consistent with a GDP contraction of 0.2% q/q Q3 11.
- After two monthly decreases, core inflation (excluding food and energy) disappointed, rising from 2.7% in June to 3.2% in July. Inflation expectations, though, continue to moderate. RPI and CPI remain high at 5.0% and 4.5% respectively.

Colliers view: Forward indicators suggest a weakening UK macro economic trend. Uncertainty continues to weigh heavily on investment sentiment and business expansion.

Investment

- The UK riots, the US debt downgrade and Eurozone financial stress are buffeting world capital markets and investment flows across all asset classes. Transaction volumes are down significantly as investors increase cash holdings or invest into gold and other havens. Ten year gilts have fallen further to below 2.3%. While this offers scope for further prime property yield compression, increased risk perception suggests diminished appetite to push yields lower. Five year swaps fell to 1.75%; where finance is available, lower debt costs may be taking pressure off yields. Transaction volumes remain down on 2010 and there is evidence the recent turmoil has caused imminent deals to be sent back to investment committees for reappraisal. Q3 11 transactions to the end of August are down over 40% on the same period of 2010.
- Retail: London prime shops continue to trade at 3% yields with a Russian investor purchasing the Rolex shop (14.5 year lease) at 100 Knightsbridge for £13m. Department stores with long leases and indexation continue to attract interest with the House of Fraser in Glasgow sold for £35m at a 5.2% IY. In Canterbury, Liverpool and Poole, funds and propcos purchased mixed assets at yields of 6.3% to 6.5%. Shopping centres: stock continues to come to market, but completions have been impacted by the recent uncertainty. Retail warehouses: the Crown Estate continues to diversify portfolio risk and has purchased South Aylesford RP near Maidstone for £70.6m at 5.9% IY. Funds have also purchased a B&Q in Sheffield for £20.5m at 6.6% and a Wickes in Ashford for £5.2 m at 6.9%. Supermarkets: CBREI purchased an M&S Simply Foods in N14 for £9.2m at an IY of 4.4%, while private investors purchased small lot size Tesco units in Folkestone and Northwich at 5.5% and 5.8% IY respectively.
- Offices: City: Pricing remains firm, with Hannover Leasing purchasing 30 Crown Place for £139m at 5.1% IY. SWIP bought 1 Tudor Street in EC4 for £45m at 5.5% IY, while DTZ IM bought 60 Cannon Street EC4N 6NP for £30.9m at 5.7% IY. KanAm has brought its £1.1bn London office portfolio to the market citing firm pricing and great international interest in the City of London. West End/Mid Town: Further residential conversions have been purchased at 8-10 Hanover Street, W1 (£25m) and 17-19 Bedford Street, WC2 (£10m). The Malaysian PF purchased 11-12 St James Square for around £150m at 5.6% IY (top floors leased at the top of the market for £140psf). Regional: Transactions up in August with a few receivership sales (Cadogan Square in Glasgow was sold to Curzon Capital for £23.5m at 9&10IY; Lateral City Walk in Leeds, leased to UK government, was sold to RREEF for £24.3m at 7.8% IY). Sales were also completed in Bristol, Birmingham and Manchester with initial yields of 6.6%, 6.5% and 6.3% respectively.
- Industrial: The Bridge in Dartford was sold to the Malaysian PF for £80m at 6.2% IY. This asset, leased to Sainsbury, traded in January 2009 for £61m at 8% and shows how far the market has come. Demand for Greater London trade parks remains strong with Ignis taking a multi-let unit in Mitcham for £8.1m at 6.1% IY and the Airport Industrial PUT taking a park at Heathrow for £6.2m at 6.2% IY.

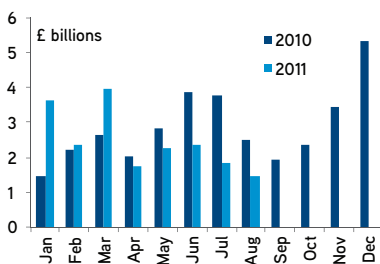
SELECTED RATES %



Source: IPD, FT

“Transaction levels remain well behind the 2010 pace.”

INVESTMENT TRANSACTIONS



Source: Property Data, 2011

“Investment deals are being reappraised by investment committees.”

Colliers view: More receivership and other stock being released, but the latest episode of economic uncertainty is restraining the market considerably.

Occupier markets

RETAIL

- ONS retail sales (ex-petrol) fell 0.2% y/y in July, although non-store retailing was up 16.9% y/y. Year-on-year retail price inflation (ex-petrol) has been positive in every month for the last 12 months and reached 2.9% y/y in July, with food and clothing prices rising the most. In contrast, non-store sales prices have fallen in 11 of the last 12 months and registered -0.8% y/y. Amazon is reported to be launching new order collection lockers in London shopping centres, meanwhile Arcadia, with some 2,500 outlets, is making head office redundancies to cope with difficult trading conditions. August figures from the BRC show on-going weakness with like-for-like sales down 0.6% y/y.
- No new large administrations were reported in August, although Lombok, the furniture trader, filed for administration. IPD retail voids has crept up to 6.1%, the highest level since July 2010.

Colliers view: The view is unchanged: retailing is not getting easier; costs are undermining profits; rents continue to fall outside of London, although retail warehouses are showing some growth.

OFFICES

- City: Mergers and acquisitions fell by 23.7% in Q2 11 and may be playing a role in the recent slowing in leasing transactions. Nevertheless, incentives and headline rents (£57.50 psf) were stable in August. West End: No significant new leasing transactions; headline rent remains flat at £95 psf. Lack of Grade A space continues to restrain market development and push occupiers to non-core areas. Debenhams is under offer to take space at the third phase of BL's Regents Place in Euston.
- Regional: Grade A absorption remains positive across all regional markets. KPMG has pre-let 65,000 sq ft at Argent's 250,000 sq ft scheme at St Peters Square in Manchester. KPMG is also reported to be looking at Central Leeds.

Colliers view: Central London market movement is limited due to lack of available Grade A space. Rents and incentives are stable. Regional Grade A absorption remains positive across markets.

INDUSTRIAL

- Expansionary investment, especially by SMEs, is still finding little traction given increasing levels of business pessimism and the absence of finance. General leasing demand remains weak, although interest in the distribution warehouse sector is increasing, with supermarkets and internet distribution companies undertaking strategic consolidations.
- 'Design and builds' may be making a comeback as occupiers find few leasing alternatives. Some 15 D&Bs have been announced in the last three months after virtually no activity in the last three years. Other occupiers are taking sub-optimal auxiliary spaces to satisfy immediate requirements.

Colliers view: Demand remains patchy, although local shortages of Grade A space may be beginning to kick start a new development cycle. The South East continues to fare better.

Residential

- Derivative pricing suggests house price falls of only 2.5% in 2011, down from 4.5% in June. The Nationwide index shows values fell in August by 1.25% y/y. Mortgage availability is still limited, but approvals reached 49,239, the highest level since May 2010. Rental growth remains strong as little progress is being made by first time buyers to re-enter the market, although 100% mortgages are now being offered linked to the homes of relatives being offered as collateral for borrowing beyond 75%.
- Developer interest in Central London remains firm with the News International Wapping 15 acre site expected to sell for over £150m. Buy-to-let investors are increasingly targeting single family houses as investments, especially detached properties, due to strong rental demand by families.

Colliers view: House prices have softened but remain broadly stable. Modest price declines are expected in 2011, although London continues to attract keen investor and developer interest.



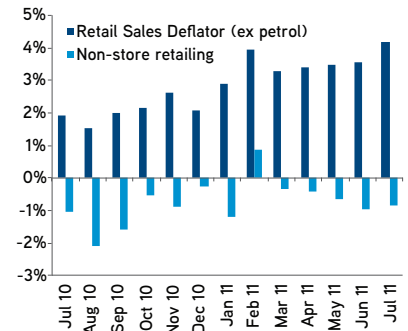
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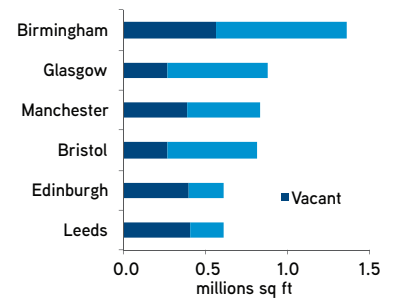
RETAIL SALES PRICE INFLATION (% Y/Y)



Source: ONS

"Non-store retail sales prices have fallen in 11 out of the last 12 months."

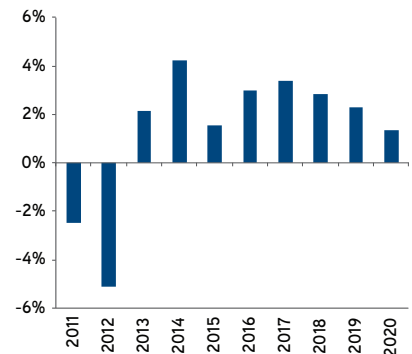
OFFICE COMPLETIONS 2008 TO 2011



Source: Colliers International

"Grade A absorption remains positive across all regional markets."

RBS HPI DERIVATIVES: IMPLIED PRICE CHANGE



Source: RBS, Colliers International

"Derivative pricing suggests house price falls of 2.5% in 2011, down from 4.5% in July."



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