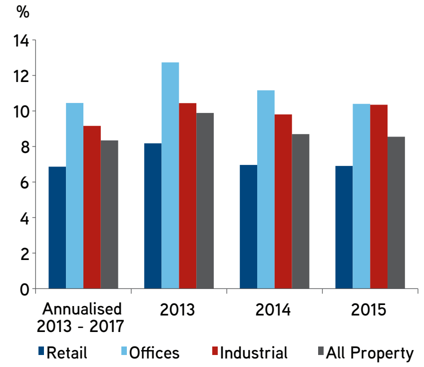
RESEARCH & FORECASTING UK

REIF IN BRIEF Q3 2013

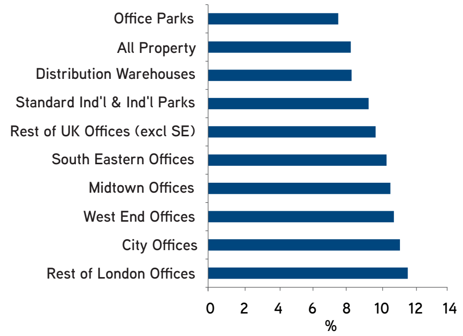
REAL ESTATE INVESTMENT FORECASTS

FIGURE 1: TOTAL RETURN BY SECTOR (TOP 10)



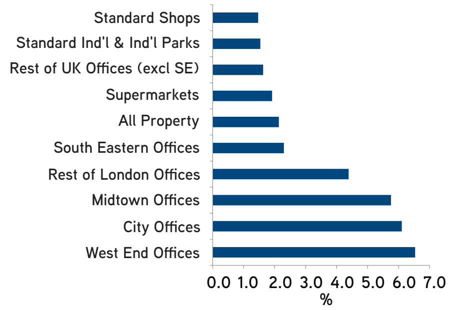
Source: Colliers International, IPD

FIGURE 2: TOTAL RETURN 2013-2017 %PA (TOP 10)



Source: Colliers International, IPD

FIGURE 3: ERV GROWTH 2013-2017 %PA (TOP 10)



Source: Colliers International, IPD

Forecast Assumptions

- Positive economic data continue to emanate from business surveys and official statistics. Forecasters have revised up forecasts substantially; Experian now forecast GDP growth of 1.1% in 2013 and 1.6% in 2014. BoE 'employment linked' forward guidance suggests that interest rates will not rise until 2016, although market pricing suggests an increase in 2015.
- Households continue to drive the recovery, but improved business sentiment is likely to drive a new phase of corporate investment, broadening the recovery both in the short and medium terms. Employment growth will be modest as firms re-coup lost productivity, but FBS employment growth will be strong and will support office rental growth.
- The Central London investment market is dominated by overseas investors with UK institutions "priced-out" with yields nearing record lows. Regional property provides an alternative with attractive yield differentials. Regional investment demand is strong and limited only by lack of available stock. Yields are likely to compress.
- A scant development pipeline, particularly for regional offices and industrial facilities, provides ripe conditions for rental growth as demand strengthens. Landlords are already looking to refurbish and reposition to satisfy demand for quality space.

FORECASTS

All Property Forecast Summary	2013	2014	2015	Annualised 2013-2017
ERV Growth (% pa)	0.8	1.6	2.4	2.1
Equivalent Yield (% eop)	6.9	6.8	6.7	6.8 (2017)
Capital Growth (% pa)	4.2	3.5	3.0	2.9
Total Return (% pa)	9.9	8.7	8.5	8.3

Retail Forecast Summary	2013	2014	2015	Annualised 2013-2017
ERV Growth (% pa)	-0.3	0.4	1.1	1.0
Equivalent Yield (% eop)	6.4	6.3	6.2	6.3 (2017)
Capital Growth (% pa)	2.6	1.8	1.5	1.5
Total Return (% pa)	8.2	7.0	6.9	6.9

Offices Forecast Summary	2013	2014	2015	Annualised 2013-2017
ERV Growth (% pa)	3.1	3.9	4.9	4.3
Equivalent Yield (% eop)	7.0	6.8	6.8	6.9 (2017)
Capital Growth (% pa)	7.5	6.5	5.3	5.4
Total Return (% pa)	12.7	11.2	10.4	10.4

Industrial Forecast Summary	2013	2014	2015	Annualised 2013-2017
ERV Growth (% pa)	0.2	0.9	1.7	1.5
Equivalent Yield (% eop)	8.3	8.1	7.9	8.0 (2017)
Capital Growth (% pa)	3.6	3.5	3.5	2.5
Total Return (% pa)	10.4	9.8	10.3	9.2

Source: Colliers International, IPD

All Property Forecasts

Colliers International's updated forecast for the 2013 IPD total return is 9.9%, based on income returns of 5.4%, rental growth of 0.8% and capital growth of 4.2%. We expect yields to harden from 7% at end-2012 to 6.9% at end-2013 as weight of money drives up capital values. Prime investment product remains in short supply and investors are bidding competitively to secure assets. Local agents report that in addition to advising on value, they must also advise buyers on the minimum price required to secure assets. Weight of money will compress yields further in 2014 and investors will widen their horizon and, increasingly, target good quality secondary assets, especially in the regions when and where they become available. We expect all property rental growth to begin contributing meaningfully from 2014 onwards as the economic recovery gathers pace and begins to drive increased activity in a wider range of occupational markets. We expect rental growth to average 2.5% pa over the next five years. Forecast risks move decidedly towards the upside as economic conditions and business sentiment continues to strengthen.

Retail

The retail sector is stabilising as sales improve with the yearly growth rate (ex-petrol) up 2.4% in August. Pressure on margins also appears to be easing; the non-food stores sales deflator has remained positive for the last quarter after a fall of nearly 7% over the previous year. Retail failures have slowed dramatically; the Centre for Retail Research reports 39 company failures to the end of August. This is an increase of only 3 companies and 13 stores since the last edition of this report in June. The IPD retail void rate is also moving steadily downward from a recent peak of 7.4% in April to 6.8% in August. The outlook for retail is mixed though with unemployment expected to remain static in the near term and pressure on 'real' incomes unlikely to ease until mid-2014. Strength in the housing market will provide a boost to consumer confidence, but the knock-on effect on retail sales is uncertain. Against this backdrop, we expect retail rents to fall by a further 0.3% in 2013, dragged down by ex-London standard shops (-1.2%) and shopping centres (-0.8%). A steady rental recovery is expected thereafter, averaging 1% pa over the next five years. We expect weight of money to compress yields 10bps across the sector in 2013, driven by Central London, but improving fundamentals ex-London will begin to contribute later in the forecast horizon. Overall we expect total returns to average 6.9% over the next five years.

Offices

The outlook for the office market is very positive. August's services sector PMI increased to 60.5 (60.3 in September), the highest level since December 2006. Growth in new business was the strongest since May 1997. Confidence has returned with 50% of respondents now forecasting business expansion over the coming year. Capacity pressures resulting from an insufficient number of employees have already been reported. Official data indicates FBS employment growth was strong in Q2 13, up 1.9% q/q (133,000 jobs), while growth forecasts indicate acceleration out to 2015. Initially, this is concentrated in Central London, but trend growth is expected to materialise in the regions from 2014 onwards and evidence from the Thames Valley is already apparent. Robust employment growth provides scope for rental uplifts both in Central London in 2013-14, but filtering out to the regions by 2014-15. Supply constraints for good quality stock in many of the regional cities means we expect growth to spike once demand increases. Offices are forecast to be the bulk of rental growth over the next five years, averaging 4.3% pa. Strong investor demand is expected to compress yields 40bps by 2014, increasing total returns to 10.4% pa over the next five years.

Logistics & Industrial

Manufacturing output rose 0.7% q/q in Q2 13 GDP growth, reversing the negative trend of the previous two quarters. The outlook has improved dramatically with the August/September PMI surveys indicating increasing output. In August, new orders rose at the fastest rate since 1994. This is the third consecutive rise in output, suggesting manufacturing performance should positively contribute to GDP growth in Q3 13. Exports also rose, by 3% q/q in Q2 13, boosted by a 7% q/q rise in goods exports to non-EU countries. Goods exports to the EU were flat, but are expected to pick up as conditions in the Eurozone improve slowly. Turbulence in the emerging markets may act as a drag, but the re-emergence of growth in the developed economies should more than offset. Performance is linked to maintaining a competitive exchange rate; fortunately BoE forward guidance suggests a benign short-term view of sterling's strength. Non-store retailing rose at a record 29% y/y in August and demand for 'dark-stores' and distributional warehouses will support big-shed rents going forward. Improving fortunes are already attracting investors. We forecast rental growth of 1.5% pa and yield compression of 60bps by 2015, driving total returns of 9.2% pa over the next five years.

480+ offices in 62 countries on 6 continents

United States: 140
Canada: 42
Latin America: 20
Asia Pacific: 195
EMEA: 85

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

Gavin Noblett
+44 20 7344 6924
gavin.noblett@colliers.com

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