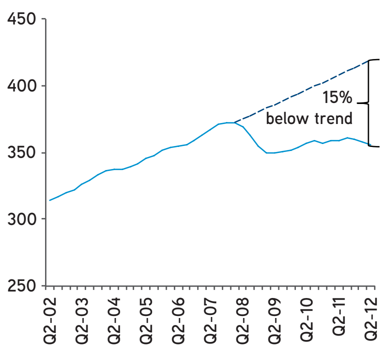
RESEARCH & FORECASTING UK

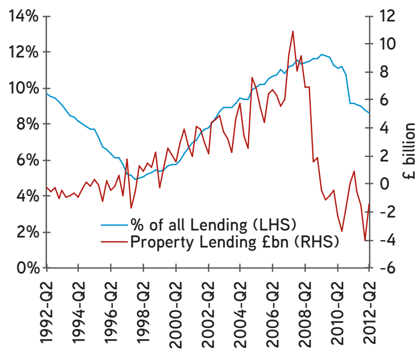
PROPERTY SNAPSHOT

REAL GDP GROWTH (SA, £ BILLIONS)



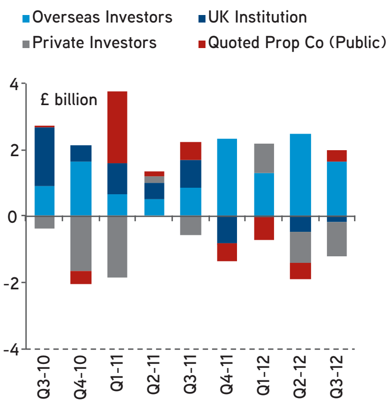
Source: ONS

LENDING TO UK PROPERTY



Source: Bank of England

NET VALUE OF INVESTMENT



Source: Property Data

Economy

- The ONS first estimate of Q2 12 GDP growth was -0.7% q/q. Some question the figure, but weak tax receipts support the data. Markets were unmoved, focusing instead on the eurozone. The latest UK purchasing manager indices suggest that Q3 12 is not off to a good start; composite indices are consistent with growth of -0.3% q/q.
- The Bank of England added the Funding for Lending Scheme to its policy toolbox which already includes base rates, quantitative easing and the Extended Collateral Term Repo Facility. Economic stagnation is undermining the government's fiscal austerity plan. Suggested new measures include more QE, lowering the base rate, a VAT cut and public investment. Bank nationalisations are also being discussed to stimulate lending.

Colliers view: The UK economy is stagnating. The government remains committed to 'Plan A', but a substantial policy shift is likely in the autumn term. Low inflation will provide flexibility.

Investment

- Investment volumes year-to-date are down on 2011 by around 12%. UK bank lending to commercial property has contracted in 11 of the last 13 quarters, down again in Q2 12 by £1.4bn. Net exposure to real estate has also fallen from a peak of 11.8% in Q3 09 to 8.6% in Q2 12. Increasingly, the view is expressed that new bank lending is unlikely to make a difference to commercial real estate for years; private equity is the new banking sector. In the absence of finance, foreign investors continue to dominate the market, accounting for 70% of July's transactions by value, with London accounting for 50%.
- Retail Shops: Numerous small lot-sized institutional grade shops changed hands outside of Central London at yields ranging from 5.3% for a long let Barclays in Bury St Edmunds to 7.0% for a Next/Iceland in Bedford (from receivers). In London, a Tesco Metro in Holloway was sold to Aberdeen AM for £5.7m at 5.17% IY and a Barclays in South West London was purchased by a private middle east investor at 5.4% IY. Shopping Centres: Limited evidence suggests that yields are moving out, with Castle Mall in Norwich city centre selling to Infrared for £77.3m at 7.8% IY and LaSalle's purchase (from receivers) of Mercat SC in Kirkcaldy for £19.75m at 11% IY. Retail Warehouses/Supermarkets: Fund appetite is intact, but available assets are few. Aberdeen AM, SWIP and USS have all acquired modest assets – an M&S Simply Food in West Wickham for £7.9m at 4.3% IY, a Tesco in Edinburgh for £6.3m at 5.4% IY and a B&Q in Camborne for £8.2m at 7.25% IY.
- Offices: City & West End: Development/refurbishment opportunities seem linked to most deals, including Hines' purchase of Broadgate West for £300m at 6.1% IY; other sites include 50 Victoria Embankment (£40m) and 11-19 Monument Street (£13.3m). In the West End, British Land purchased the Clarges Estate for £129.6m which includes 100k sq ft+ of office space and retail development potential; the Crown Estate bought the BAFTA building for £87m consolidating their ownership of the north side Jermyn Street; and Derwent bought 11 Francis Street, positioning itself to exploit the ongoing shift in Victoria's tenant profile. Regional: Activity increased, with institutions and foreign investors buying. Gatehouse Bank bought offices in Aberdeen for £60m at 7.2% IY, while L&G bought two units on Cambridge Science Park for £22m at 7.25%. A German fund bought Dukes Court in Woking for £52m, with Britannia Invest (Denmark) buying in Southampton for £26.5m at 7.2% IY. The Israeli insurance company CLAL also bought a prime building in central Birmingham for £32m at 6.5% IY.
- Industrial: Very few transactions have completed in July. Aside from the CBRE GI investment in an oil field service park in Aberdeen (£19.9m at 7.6%), there is little to report; no significant distribution facilities changed hands.

Colliers view: London remains the focus by value and foreign investors remain the moving force. Although quite a few deals were concluded in the regions in July, it is too soon to call it a trend.

Occupier markets

RETAIL

- June retail sales volumes (ex-petrol) were up 0.3% m/m (0.2% q/q) as the retail sales deflator fell for a third consecutive month to 0.8% y/y; the non-store retail deflator fell to -1.1% y/y. E-tailers seem to be benefitting most from the Olympics. While high street footfall, over the first Olympic weekend was down by -9.0% y/y (London -21% y/y), Experian reports that visits to retail websites were up 15% y/y. Week two footfall is showing improvement.
- Latest figures from the Insolvency Service show that retail administrations fell by 8% in Q2 12 from 57 to 52; the quarterly average since 2001 is 31.5. The Q2 12 IPD Quarterly Digest shows that shop rents outside London and the South East have been falling for four years; shopping centre rents are also approaching a similar anniversary. In contrast, supermarkets and retail warehouses continue to see modest, but positive rental growth.

Colliers view: Retail sector trading remains tough; the 'Olympic effect' is supporting online sales with footfall down on UK high streets.

OFFICES

- City: Headline rent remains at £57.50 psf with incentives stable at 12 months per five-year term certain; tower space is achieving £65 psf. City stock absorption was positive in H1 12, but the 'core' is seeing increased grey space and availability. Fringe market demand is strong, especially for Grade B stock. TMT and insurance companies are active. West End: Headline rent is stable at £100 psf for 10,000 sq ft+ units (£110 psf for smaller units). Net stock absorption was down substantially in Mayfair in H1 12 as grey and second-hand space came to the market; this was counterbalanced by strong absorption in Victoria. Year-end figures will be stronger as numerous deals complete.
- Regional: Take-up in the M25/Thames Valley region year-to-date disappointed with deals stagnating. Rents remain stable and activity is likely to be back loaded with a busy end of year. Edinburgh apart, the regional cities are quiet, possibly reflecting the seasonal slowdown.

Colliers view: Unchanged. Markets are sluggish, despite numerous large requirements, but completions are not likely until later in H2 12 when further localised rental growth is expected.

INDUSTRIAL

- The supply of quality distribution space has tightened further with several 100,000 sq ft+ lettings announced in the West Midlands. Speculative development remains absent; although a SWIP forward funding in the East Midlands may be an early sign of new activity. SWIP has also recently funded a speculative multi-let industrial park near Heathrow.
- E-tail projects, value retailers and internet distributors are actively engaged in discussions which may bode well for year-end transactions. The June IPD monthly index confirms that rents are generally static. In the last three months, standard industrial and distribution warehouses fell 0.1%, while London rose 0.1%.

Colliers view: Limited movement despite occupier interest in expansion. Rental performance remains flat. Speculative activity may be showing signs of life.

Residential

- July house price indices moved in tandem with Halifax and Nationwide showing a monthly decrease of -0.6% and -0.7% m/m. The yearly rates were -1.3% and -2.6% y/y and are consistent with ongoing weakness and contractions in mortgage lending. Halifax predicts little change in prices for 2012 unless the recession deepens.
- Evidence is finally coming through on the impact of the new stamp duties. Top end London property (£2m+) sales fell by 24% since the March budget, although sales in the £1-£2m range have increased by 26%. The government tax bonanza is showing few signs of materialising.

Colliers view: The market is stable, but vulnerable. Foreign demand for London properties worth more than £2m is being impacted substantially by the new stamp duties.

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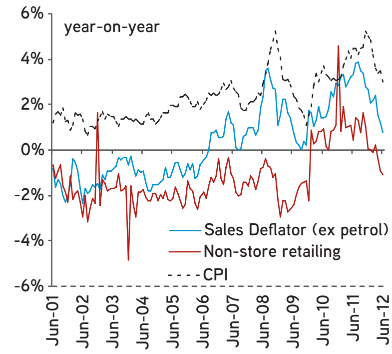
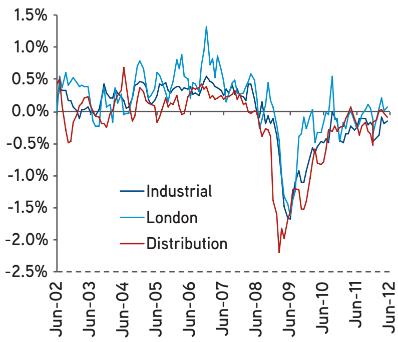
RETAIL PRICE MOVEMENTS



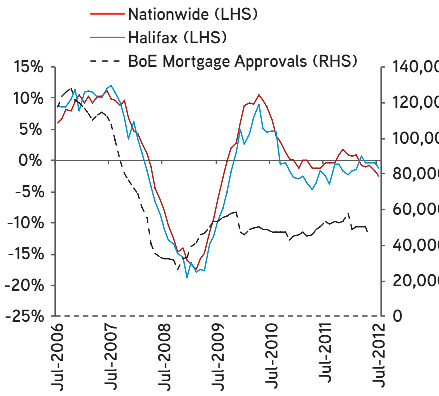
Source: ONS

IPD RENTAL GROWTH % Q/Q



Source: IPD Monthly Digest

HOUSE PRICES (% Y/Y) AND MORTGAGES



Source: Bank of England

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