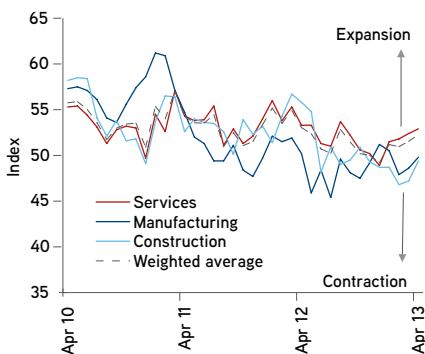




# RESEARCH & FORECASTING UK PROPERTY SNAPSHOT

## PURCHASING MANAGER INDICES



Source: CPI/Markit

## Economy

• PMI data continue to improve. Services increased from 52.4 to 52.9 while manufacturing and construction have almost reached expansionary levels at 49.8 and 49.4 respectively. GDP growth in Q2 13 looks positive. Inflation is stable with March CPI and RPI almost unchanged at 2.8% and 3.3% respectively. The MPC left policy on hold again in its May meeting as data remained generally stable and increasingly positive. The FTSE 100 reached 6600 for the first time since 2007; ten year gilts have risen slightly to near 1.9%; gold remains down at \$1428 per ounce. According to FT reports, US hedge funds are 'bullish' on the Euro and believe the Europeans "... have done enough, we don't see a collapse as a likely scenario in the near term anymore." Cyclical forces may finally be impacting even though the data remains unconvincing.

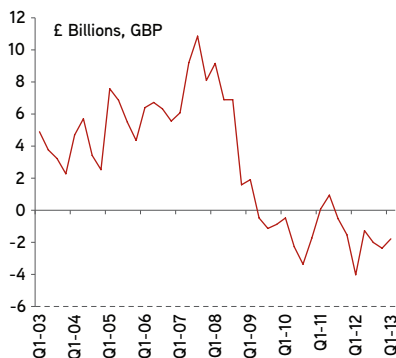
**Colliers view:** UK economic fundamentals are stable, if non-expansionary and risk appetite appears to be improving. The data, though, remains inconclusive.

## Investment

- Transaction volumes fell from £3.3bn in March to £2.0bn in April, although 2013 is up 33% on 2012. Foreign pension funds and insurance companies made the top six April purchases accounting for £1.1bn, or half of the total. The largest was the CPPIB (Canada) / Hammerson JV purchase of a one third stake in Birmingham's Bull Ring for £307m at 5.7% IY; this is followed by Oxford Properties' purchase of 10 Paternoster Square (London Stock Exchange) for £225m at 5.3% IY. In the absence of debt, cash and forward purchases led the way in April.
- Retail Shops: The largest Welsh transaction in two years completed with NFU Mutual's purchase of 63/77 Queen Street in Cardiff (Zara, Top Shop & River Island) for £45.5m at 5.7% IY. Several small deals completed at yields ranging from 6% in Canterbury to 7.2% in Chippenham, with a Blockbusters and Poundstretcher portfolio trading at 10.7% IY. Shopping Centres: Aside from the Bull Ring, the only significant deals included Mars PF's purchase of Church Square in St Helens from receivers for £30m at 9% IY (lease options to 134 years) and Intu's purchase of a development opportunity from Watford Borough Council. Retail Warehouses: The Crown Estate bought Coliseum Park in Ellesmere Port for £81m at 5.25% IY and St James's Place PF bought Suffolk RP in Ipswich from Aberdeen AM for £18.75m at 7.1% IY. NFU Mutual also forward funded an Ashford John Lewis At Home for £7m. Supermarkets: Only three sizeable deals to report: a Tesco sale & leaseback in Stroud for £29.2m at 4.9% (20 years with RPI link) to Bishopsgate LT PFUT, a Sainsbury forward funding in Milton Keynes by Rockspring for £12.3m at 5.1% IY and an ABF M&S Simply Food forward funding in Reading for £9.2m at 4.3% IY.
- Offices: City: Foreign funds are dominating; in addition to Oxford Properties' purchase of 10 Paternoster Square, KWAP (Malaysia), Samsung (Korean), DEKA (German) and Sinarmas (Indonesia) all invested, including 88 Wood St. (£215m at 5.76% IY), 30 Crown Pl. (£142m), 95 Gresham St. (£85m) and 8-18 Great Queen St. (£84m) respectively. West End: Deals were linked to asset management including Evans Randall's purchase of 15 Sackville St, with voids, for £60m; Wing Tai Properties (Singapore) buying 10 Brook St. (short lease near Crossrail) for £36.2m at 4.2% IY; and 25 Buckingham Gate (VP in 2014) for residential conversion. Regional: Short leases, high yields and an eye to replacement cost is a theme for secondary business park stock as evidenced by AEW, Henley Property and Oaktree purchases. Lower risk product is moving at around 6.5% to 7% IY with city centres seeing some activity.
- Industrial: Trading estates with multiple tenants continue to move, with Hartlebury Estate selling to Schroder UK for £46.2m at 9.5% IY (182 units with 85 tenants); also the Beaumont Estate in Banbury sold for £10.8m at 12.8% including development land. Quality distribution pricing is stable, with the Peterborough Mail Centre selling for £13m at 6.6%.

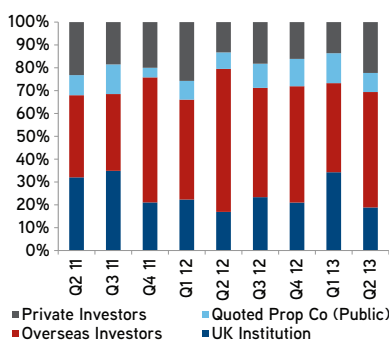
**Colliers view:** Foreign funds continue to buy London, although increasingly assets require management. Regional assets continue to attract attention, but are very price sensitive.

## CHANGE IN UK REAL ESTATE LENDING



Source: Bank of England

## PURCHASERS (BY PERCENT)



Source: Property Data Ltd

## Occupier markets

### RETAIL

ONS sales (ex-petrol) fell 0.8% m/m in March after strong growth of 2.1% m/m in February. With inflation stable, some retailers may be trying to rebuild margins; the retail price deflator rose to 0.6% y/y in March. The Centre for Retail Research shows 28 failures through week 20 with 1,895 stores affected; by store count this amounts to half of the 2012 total. Preliminary results from Colliers half-yearly voids research suggests that several UK high streets in the sample are still weakening. IPD Q1 13 quarterly data shows little change; rents fell by 0.2% for retail as a whole, unchanged from the 0.2% decline in Q4 12. Rents in Central London rose by an annualised average of 5.9% and fell in all other regions, led by the East Midlands and Wales at -4.0% and -3.1% respectively; supermarkets rents grew by a meagre 0.4%. ONS non-store sales were growing at a 26% y/y rate in March.

**Colliers view:** Unchanged. Shop margins remain tight, with online sales strengthening. Evidence of rental recovery ex-London is scant, although the rate of decline has abated.

### OFFICES

**City:** As Colliers predicted last quarter, large requirements are increasing and, if press speculation about various parties interested in the Shard and The Place at London Bridge Quarter proves true, then like the impact of the Amazon deal at Sixty London, the shortlist of suitable alternative spaces for large corporates will shrink further and become hotly contested, with incentives falling and net effective rents rising. West End: Increasing demand for large floor plates from a wide range of energy, utility, TMT and retail companies is pressuring all non-core and emerging submarkets (especially Kings Cross), although Grade-A supply in Mayfair/St James is also forecast to fall from 405,000 to 202,000 sq ft by 2016.

**Regional:** Grade-A space is disappearing in several CBDs and rental pressure is apparent. Outside city centres, signs of life are evident, although the deal flow is still intermittent.

**Colliers view:** Demand in Central London is improving, especially the City market. Some regional centres are also seeing improvement as supply shortages impact.

### INDUSTRIAL

Manufacturing output declined 0.3% q/q in Q1 13, although confidence is improving, with the manufacturing PMI up in April to 49.8. Goods exports rose by 5% m/m in March, with non-EU markets showing strength. The sector may be stabilising and anecdotal reports from the Midlands suggest that occupier demand may also be stabilising.

Colliers reports that prime UK small shed rents were increasing by 2% y/y in Q1 13, with Outer London up 6% and the SE up 2.3%. Big shed prime rents were also up 2.5% y/y, with the East Midlands and West London up 9.5% and 8% respectively. Take-up rates suggest that the UK has only two years supply remaining, with acute Grade-A shortages in London, South East, Eastern, North East and Wales. Speculative projects look increasingly to be on the agenda.

**Colliers view:** Demand from E-commerce, value retailers and new interest from manufacturers suggest that leasing demand may be stabilising. Spec activity is looking increasingly likely.

## Residential

House price indices are mixed in April, with Nationwide showing a marginal fall of -0.1% m/m and Halifax showing a strong rise of 1.1% m/m, respectively. Mortgage rates fell in April by 4 bps to 2.87% (2 year fixed 75% LTV) and approvals rose from 51,947 to 53,504. Rightmove reports that April website hits were twice the April 2012 rate and asking prices rose 7% in the month following the 'Help to Buy' announcement. Barratt Developments reports buyer interest at a five year high. An RICS poll also shows that the scheme impacted the market immediately. The OBR worries that there is a risk of house price inflation without an improvement in supply. Meanwhile, the demand for Central London prime property continues. The FT reports that new build schemes in the City of London are up 25% between 2010 and 2012, with prices nearing £2,500 psf.

**Colliers view:** The 'Help to Buy' scheme has had an immediate impact on the mass market and is likely to increase transaction levels and prices. Central London prime remains strong.



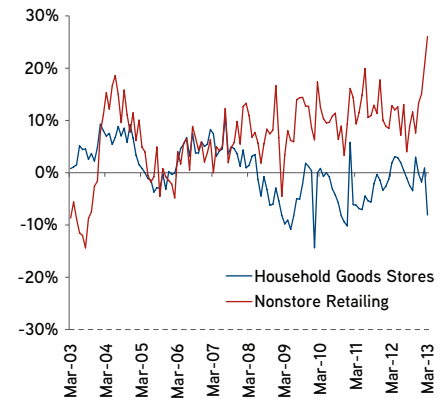
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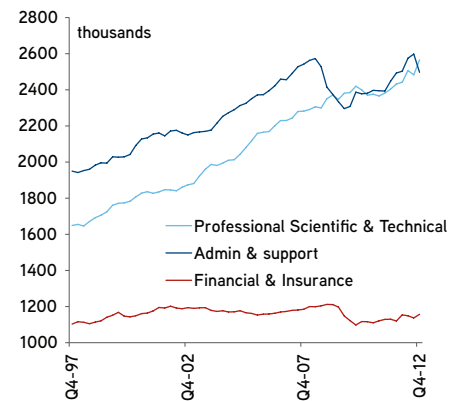
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### RETAIL SALES GROWTH %Y/Y



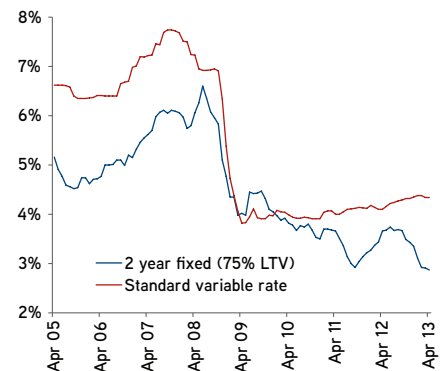
Source: ONS

### WORKFORCE NUMBERS



Source: ONS

### MORTGAGE RATES



Source: Bank of England



Accelerating success.