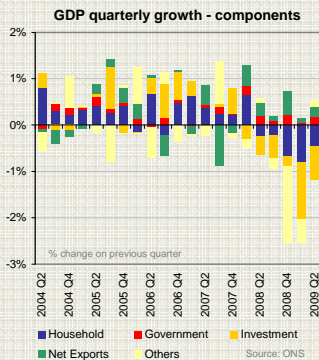


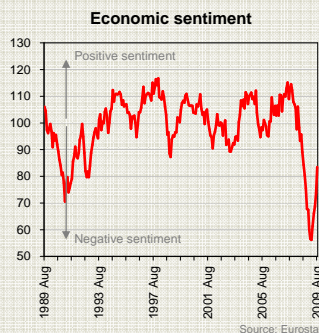


Property Snapshot

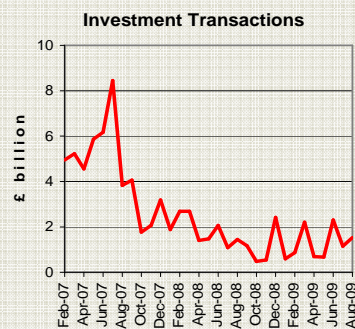
UK ECONOMY & PROPERTY MARKET
COLLIERS CRE MONTHLY HOUSE VIEW | September 2009



"Confidence indicators improved significantly in August."



"Increasingly there is a disparity between prime and secondary."



Source: Property Data, 2009



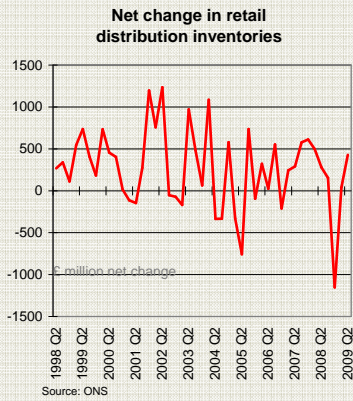
Economy

- Provisional Q2 GDP was revised up slightly to -0.7% q/q. The improvement in quarterly GDP growth from -2.4% in Q1 is due largely to a fall in the rate of de-stocking; government spending and net exports also made positive contributions, although net exports were buoyed by a fall in imports rather than an increase in exports. Investment fell by an additional 4.5%, compared to a fall of 7.5% in Q1.
- Eurostat confidence indicators have improved significantly in August. The Economic Sentiment Indicator increased from 73.8 to 83.5, the largest monthly gain since the series began in 1985. CPI/Markit Services PMI also increased strongly from 53.2 to 54.1 leading some observers to anticipate up to 0.7% q/q GDP growth in Q3 09.
- CPI remained stable in July at 1.8% y/y and RPI rebounded slightly from -1.6% to -1.4%. Food and energy prices continue to ease at 3.9% and 14.5% y/y respectively. Crude oil prices have stabilised since June with monthly averages around \$70 per barrel.
- The monthly claimant count posted another modest gain of 24,400 in August down slightly from the July increase of 25,200. The count stands at just over 1.6 million.
- Colliers CRE view: Our view is unchanged and continues to be positive due to sustained improvement in most economic indicators. We anticipate a return to positive economic growth before year-end, although public finance will constrain recovery.*

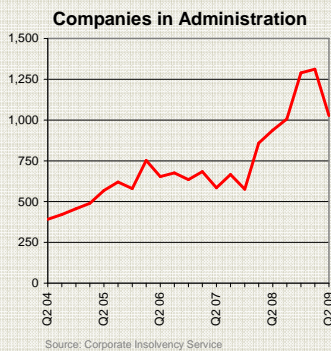
Property Market

Investment Overview

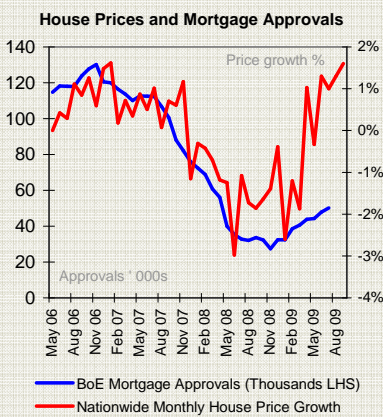
- A pricing discrepancy has opened up between the IPD derivatives market (-2.75% total returns 2009) and IPF consensus (-11.9%). Derivative pricing suggests that the remainder of the year will see modest capital value growth; the IPF consensus suggests modest negative growth. Derivatives market pricing may reflect a limited cross-section of prime deals. Colliers CRE is forecasting a -7.3% total return for 2009.
- By value, investment transaction volumes rose slightly from £1.2bn in July to £1.5bn in August; transaction numbers also increased slightly from 54 to 72 per month. Average transaction size still sub-£25m with cash buyers chasing prime assets.
- Retail: A little activity in shopping centres with the Protego sale of Shrewsbury for around £50m (purchased in 2006 for £118m). Durham sale completed for £60m at around 8.4% yield. Private investors continue to acquire the limited high street stock that is available causing yields to harden; retail warehouses are in demand, but product availability is also very limited.
- Offices: Demand for long leases to strong covenant tenants is spreading to the other parts of the southeast and provincial centres (Weybridge, Proctor & Gamble under offer to private Middle Eastern investor at around 8%). Central London demand remains strong.
- Industrial: Equiton portfolio of 42 multi-let industrial units was sold to USS for £196m at 8.7% yield and Max Properties completed on the Industrious Portfolio for £232m reflecting a yield of 10.3%.
- Colliers CRE view: Product availability is limited as banks choose not to sell distressed assets. More equity continues to seek to take advantage of a market perceived to be at the bottom, but few distressed sellers around. Even with improving yields, disparity between prime and secondary values continues to grow as income falls.*



“Retail trade and consumer confidence indicators continue to improve.”



“The residential auction frenzy has subsided for the moment . . .”



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Occupier Market Overview

- The IPD all property void rate rose in August from 11.8% to 12.3%. Retail was relatively stable for the fourth consecutive month, up 10 bps in August to 9.1%. Offices increased significantly by 60 bps to 13.6%; and industrial showed a large rise of 120 bps to 18.2%. The slower rate of de-stocking reported by the ONS does not yet seem to be having a positive impact on distribution warehousing, although retail inventories increased by £427m in Q2 09. In contrast, August PMI data shows that manufacturing inventories may have declined after a few monthly increases.

Retail

- Eurostat’s retail trade confidence indicator continued to strengthen in August, although consumer confidence remained unchanged in July. Retail sales were flat in August with food stores up 0.7% and everything else down. The BRC reports falling like-for-like sales; UK sales fell by 0.1% led by London which fell 5.9% the largest fall in four years.
- No new large administrations reported, but it is too soon to say whether the retail sector is stabilising, as rents continue to fall and incentive packages continued to expand across sectors. IPD retail void rates remained relatively stable.
- *Colliers CRE view: Retail market remained quiet in August with few leasing deals being completed. The outlook for new administrations and CVAs has improved greatly.*

Offices

- City: Renewed activity: Nomura, Catlin Underwriting and News International together have taken 800,000+ sq ft. Incentives may be peaking with Nomura’s Watermark Place letting (6-year rent-free, 20-yr lease, £40 psf). Headline rent is arguably £40 psf.
- West End: Market is still quiet with tenant space continuing to come to the market. The vacancy rate exceeds 10% for the first time since 2005, with a further 700,000 sq ft of speculative space expected to come to market by year-end.
- Regions: Markets are quiet. Absorption rates are negative with occupation falling across all regions, although Grade-A absorption rates are positive. Glasgow may see its largest letting ever: Tesco’s banking arm plans to take 125,000 sq ft, creating 800 jobs in 2010.
- *Colliers CRE view: The City leasing market may be finding a bottom as incentives peak. West End and regional markets are still subdued as new space comes to market.*

Logistics and Industrial

- The industrial economy recovery remains mixed with August manufacturing PMI index down slightly from 50.2 to 49.7 suggesting contraction. Stock building was also down, but employment intentions improved for the sixth consecutive month.
- Leasing transactions are few, although confidence is returning. The sub-10,000 sq ft segment is active, with moderate activity in the 10,000 to 50,000 sq ft segment. Landlord incentives may be stabilizing. Corporate occupier demand for turnkey capex deals continues. This theme is linked to balance sheet de-leveraging requirements.
- *Colliers CRE view: Few deals apparent, but confidence is improving. Landlord incentives are stable, but too soon to call the bottom. Demand for turnkey capex deals.*

Residential

- Nationwide index was up by 1.6% in August. Prices have increased by 3.2% in 2009, although are down 14.4% since the peak. Real prices are returning to long-term trend. Few second-hand properties are available as interest rates remain low. Household equity is much greater than in early 1990s. Mortgage approvals are up slightly in August, but net mortgage lending contacted by £418m as home owners pay down mortgages.
- The residential auction frenzy has subsided for the moment, with few repossessions coming to the market. Investment is still dormant in the absence of product; bank sales of distressed assets to their own SPVs, is not helping supply.
- *Colliers CRE view: House prices continue to firm in the absence of supply. Mortgage availability continues to improve slowly. Investment market still dormant. Media sentiment toward property has improved markedly.*

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