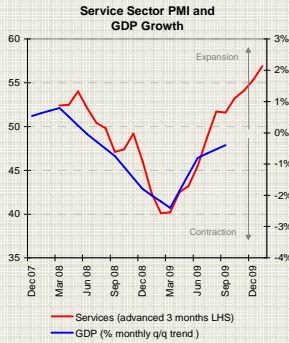




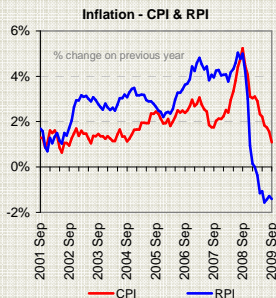
# Property Snapshot

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



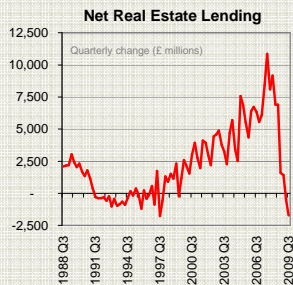
Source: CPI/Markit, ONS, Colliers CRE

*“Money markets suggest rate rise as early as May 2010 . . .”*



Source: ONS

*“Net real estate lending figures fell again in Q3 09 by £1.7bn.”*



Source: BoE



## Economy

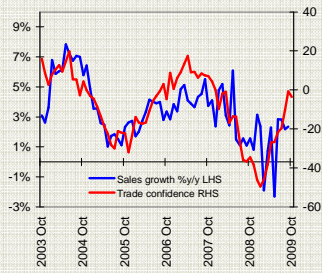
- Preliminary Q3 GDP down -0.4% q/q, the sixth consecutive recessionary quarter; total GDP contraction since Q2 08 is -5.9% compared to -2.5% in early 1990s recession. Strong confidence survey data suggests that this outcome may be revised up substantially when final figures are produced at end of November.
- The CPI continues to ease from 1.5% y/y in August to 1.1% in September. Food price inflation eased from 2.4% to 1.7% and gas and energy prices declined outright by -5.9% y/y, reflecting, in part, the large rise last September. RPI has stabilised at -1.4% y/y.
- The Bank of England left the base rate at 0.5%, but extended quantitative easing by another £25bn, no doubt influenced by the weak Q3 09 GDP figures. Base rates are set to remain at 0.5% for the foreseeable future, but money markets suggest that rate rises could begin as early as May 2010 with some analysts seeing rates at 2% by end 2010.
- *Colliers CRE view: We were overly optimistic about positive GDP growth in Q3 09, along with 32 other leading City economists. Survey data remains strong though, and we believe that Q4 09 will show a significant improvement in performance. Inflation trends and business activity levels suggest the possibility of rate hikes by mid-2010, although the MPC may see a need to maintain a benign monetary environment.*

## Property Market

### Investment Overview

- Investment volumes remain subdued, although yields have fallen due to the sheer weight of money chasing limited product. Demand for prime secure income has given way to an appetite for riskier assets. Funds are under pressure to increase property allocations, due to fund inflows and equity market buoyancy requiring asset weight rebalancing.
- By value, investment volumes are limited; £1.6bn in October, down from £2.3bn in September. The market may have accelerated in the last few weeks, but this is not yet reflected in the data. Considerable ‘off-market’ activity is reported. Net real estate lending fell again over Q3 09 by £1.7bn, with overall lending exposure to property steady at 11.8% of all commercial lending.
- Retail: Bidding on Silverburn Mall, South Glasgow is likely to finish this week (original book value £350m, guide price of £250m). High Street sales remain focused on prime stock; Boots in Chichester completed at 5.4%. Food store interest continues: Sainsbury’s in Cheltenham under offer at 5.1% after last year’s sale at 6.25%. Waitrose in Cheadle reported to be under offer at 4.6% to private money. Institutions looking at secondary stock in strong locations. Income and covenant strength are under great scrutiny.
- Offices: London offices are trading at sub 6%. Columbus Courtyard, E14 completed at 5.8% (guide price 6.25%). West End deals are being negotiated in the ‘low fives’. The weight of money, driven by exchange rate differentials, may push yields in the ‘fours’. Risk appetite is up with secondary stock attracting interest in London and the regions.
- Industrial: Tesco sale of two distribution warehouses to Tesco pension fund completed at 6.3%; John Lewis warehouse in Bristol sold at 6.25% IY; otherwise limited activity although there is increased interest in secondary stock in the absence of prime product.
- *Colliers CRE view: Investment market is beginning to move with a substantial weight of money looking and pushing up prices on prime and secondary stock, although product remains limited. Foreign money continues to see advantages in currency arbitrage.*

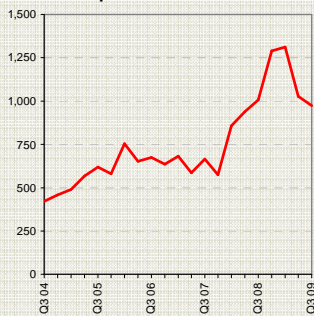
Retail Sales / Trade Confidence



ONS, Eurostat

*“Retail leasing market still riddled with puzzling array of incentive packages.”*

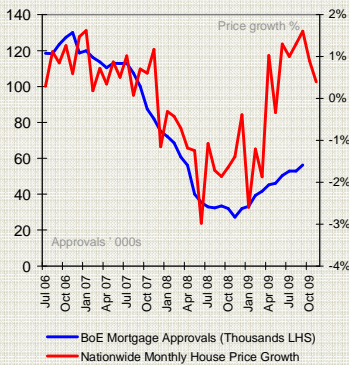
Companies in Administration



Source: Corporate Insolvency Service

*“Housebuilders are showing renewed interest in development sites . . .”*

House Prices and Mortgage Approvals



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## Occupier Market Overview

### Retail

- The ONS reports flat September retail sales; food sales eased due to lower price inflation. In contrast, the BRC reports like-for-like UK sales growth of 2.8% y/y and 7.5% y/y for London. These strong y/y figures reflect weak sales in Sep 08 (Lehman's failure and bad weather). Weak sterling continues to attract Europeans to London. Non-store sales were up 11.9%, but the postal strikes are likely to impact October figures.
- Brussels continues to apply pressure on 'government subsidised banks' to divest of 'anti-competitive' branch networks. RBS and Lloyds disposals likely to include some 900+ branches. Virgin Money, BBVA and NAB are reported to be interested. The government is seeking to limit maximum market share of retail banking to 15%.
- The retail leasing market is still riddled with a puzzling array of incentive packages, turnover rents, short-term leases with little discernable pattern other than a central theme of leasing market weakness. Latest administrations include First Quench which led to the closure of 373 Thresher branches; Blacks is closing 89 shops.
- *Colliers CRE view: Retail shop trading remains difficult. Increasing voids are providing opportunities for secondary operators to take prime positions. Leasing markets remain weak; a few acquisitive chains (especially discounters) are exploiting the weak market.*

### Offices

- City: Grade-A space continues to move. Headline rents have firmed; incentives are stable and likely to contract by mid-2010. The 4th floor of 60 Threadneedle St. is under offer at £45 psf (33 months rent-free; 10 year lease). Several large requirements remain.
- West End: Discussions in September have converted into October deals. Activity levels are up, leasing demand has improved and remains characteristically heterogeneous (e.g. banking, financial services, media, shipping, et. al.). Headline rents around £77.50 psf.
- Regions: Most leasing activity related to churn (e.g. upgrading, re-gearing, relocation). New demand is limited and highly selective. Bristol, Birmingham and Glasgow showing some strength, but rental growth remains flat. Secondary product is suffering.
- *Colliers CRE view: City and WE markets showing greater activity in line with improved service sector confidence. Demand for Grade-A space steady; rents and incentives likely to harden by Q1 10. Regions seeing a good amount of churn, but little new demand.*

### Logistics and Industrial

- August's disappointing industrial production figures (-2.6% m/m) have been reversed somewhat with positive 1.7% growth in September. The CIPS / Markit manufacturing index improved significantly from 49.9 to 53.7 in October on the strength of new domestic orders. Growth prospects for the sector are improving.
- Concerns remain about occupier market, but continual improvement in market sentiment is beginning to impact on the leasing market with landlord concessions not as readily on offer. Landlord incentive levels have stabilised.
- *Colliers CRE view: Confidence continues to improve with leasing enquiries continuing to show strength, limited evidence of actual re-stocking as tenants remain cautious.*

### Residential

- The Nationwide index rose by 0.4% in September compared to 0.9% in September. Sentiment is still mixed with some observers expecting renewed price weakness. Mortgage approvals improved again marginally from 53,000 to 56,200 (seasonally adjusted) with BBA reporting a marginal increase in net lending from £3bn to £3.1bn.
- Housebuilders with long term finance facilities are expressing renewed interest in development sites with enquiries up over the last month. Other residential investors are struggling as banks seek repayments and tighten up on lending terms.
- *Colliers CRE view: The investment market remains dormant although housebuilders are showing greater confidence. House price movements remain uncertain.*

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