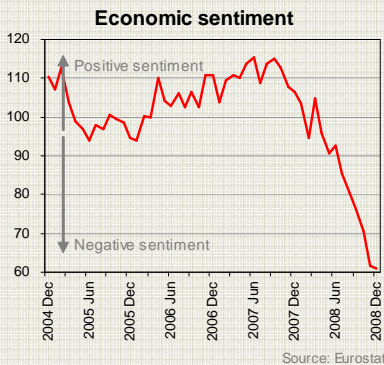


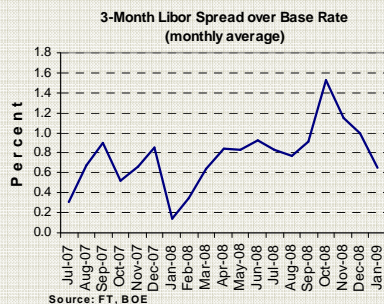


Property Snapshot

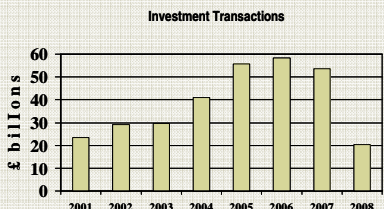
UK ECONOMY & PROPERTY MARKET
COLLIERS CRE MONTHLY HOUSE VIEW | January 2009



“Economic sentiment curve flat in December, but remains very negative.”



“BoE Credit Conditions Survey indicates a further reduction in lending to commercial real estate sector.”



“Investment transactions in 2008 ended around 60% down on 2007.”



Economy

- GDP Q3 08 growth revised down to -0.6% q/q. Annual GDP growth for 2008 expected to fall to 0.8%. Consensus GDP forecasts for 2009 downgraded in December to -1.7%. Private consumption to decrease by -1.6%; fixed investment levels to contract by -8.1%. Chancellor warns of imminent downgrade to government forecasts.
- Economic sentiment indicator fell slightly in December from 61.6 to 60.0, but remains very negative; consumer confidence down (-26.8 to -28.7); services down (-53.3 to -55.8); retail trade down (-38.4 to -46.2). Figures are all consistent with further GDP falls.
- CPI inflation continues to fall from 4.5% y/y in October to 4.1% in November due to decreases in transport fuel costs. RPI fell to 3.0% y/y reflecting fuel costs but also reductions in mortgage interest costs. The price of oil remains low although volatile due to OPEC supply uncertainty and Middle East political instability. Steel prices down.
- BoE *Credit Conditions Survey* (CCS) shows that household and corporate lending was tightened in Q3 08 with further tightening expected in Q1 09. Non-financial UK corporate profits fell by around 6% y/y (excluding oil companies). ‘Quantitative easing’ has slipped into vocabulary as governments seek new means of stimulating credit availability.
- *CCRE view: Economy continuing to contract across most sectors. Wholesale money markets remain disrupted and lending remains constrained with continued negative impacts on consumer and commercial borrowing. Market data suggests there is some confidence that co-ordinated worldwide fiscal measures will prevent a deep recession.*

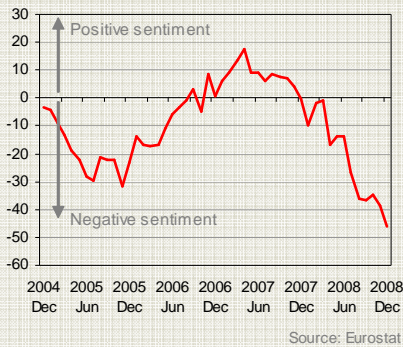
Property Market

Investment Overview

- Finance still generally absent from market irrespective of LTV. *Credit Conditions Survey* indicates a ‘larger than anticipated reduction in credit availability to the commercial real estate sector’ in Q4 08; further reductions expected over the next three months, although smaller lot lending available from German regional banks and UK ex-building societies.
- Transaction volume for 08 ended 58% down on 07 at £22.3 bn. December transactions reached £2.4 bn, up from £540m in November, mostly due to transfer of HSBC Tower (£838m) and Tesco sale and leasebacks (£308m). Too soon to ‘call the bottom’ as values expected to fall further by up to 20%. The bottom has probably been reached for bond-like investments (AAA covenants with long leases and fixed uplifts) at around 7%.
- Retail: Several retail parks changed hands in December in a range from 6.0% to 7.7% IY; interesting, but unlikely to reflect a trend. Numerous shopping centres remain on the market with Salisbury completing at around 7.75%. Pricing attractive, but buyers continue to ‘wait and see’ with respect to trading results, administrations and void potential.
- Offices: City beginning to look cheap, especially for long leases with limited short-term risk. German and Middle East money around increasingly with confidence buoyed by weak sterling. West End smaller lot sizes moving with several deals under offer to private buyers at around 7%.
- *CCRE view: Investment market pricing nearing bottom in some market segments and asset classes, but increasing risk of voids, rental declines and continued lack of finance leading to further uncertainty increasing the scope for further capital value falls. Forced sales still not a feature of the market, though this may change as refinancing of existing facilities begins to weigh on lending market.*

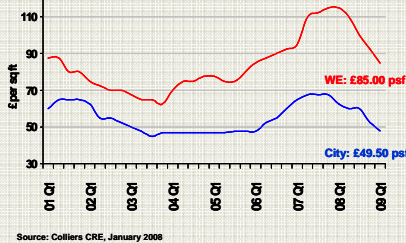
"Xmas trading weak, but so far in-line with market expectations."

Retail trade confidence



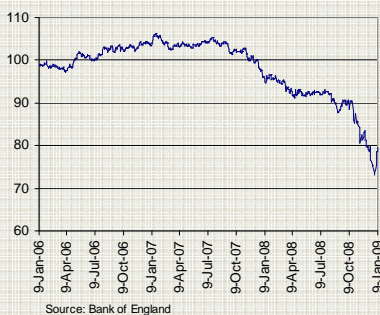
"Leasing offers coming to market without quotations..."

Office Prime Rents



"Multi-let industrial unit demand remains surprisingly steady."

Effective exchange rate



"House price falls continue; new mortgage approvals hit new low."

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Occupier Market Overviews

- IPD all property void rate ticked up in November by 60 bps to 9.6%. Retail was up by 100 bps, industrial by 50 bps, but offices remain relatively stable at 10 bps. Industrial sector void rate has increased by 260 basis points since November 2007.

Retail

- ONS retail sales volumes stable in November at 0.3% m/m. BRC reports November like-for-like sales down by -2.6%. December UK retail trade confidence fell 20% to -46.2. So far, Xmas trading better than expected with food and value retailers leading. Profit margins exceed expectations reflecting tight stock and cost control.
- Woolworths has closed its final stores accompanied by 27,000 job losses. The brand name may be salvaged and 125 units re-opened in the north. Other casualties include: Adams, Morgan, Viyella, Wedgewood, Whittard, Zavvi. Administration 'pre-packs' coming to the market show that many troubled retailers have salvageable core businesses despite having over-expanded on the back of cheap money; surplus units will continue to come to the market.
- *CCRE view: Retail sector proved relatively resilient over year-end, but confidence in 2009 looking pretty weak. Food stores and value retailers are likely to build on recent strength with further expansions expected. Rental growth forecast to fall by around 5.6% with a steady supply of retail units coming back on to the market.*

Offices

- City: Prime rents quoted at £52.50 in December have begun the new year around £49.50 (average Grade A £47.50) although evidence limited. Rents are likely to be held up artificially where asset values need to be maintained. West End: prime rents sub £90 ppsf (probably £85 ppsf), although little evidence as leasing offers are being distributed without rental quotations and offers are being considered primarily in light of covenant strength.
- Regions: Still interest in the regions, especially Birmingham with its strong interregional transport links. Professional services churn continues to drive market in Scotland although financial services companies are out of the picture. Manchester and Leeds will have considerable space coming to the market in 2009. Rents are expected to fall across the regions by 5% to 10% over 2009.
- *CCRE view: Service sector confidence figures suggest further contraction in demand. Further banking and financial services staff reductions are likely going forward. City prime office rents are forecast to fall further by another 10% to 15%.*

Logistics and Industrial

- Leasing demand remains limited to sub 50,000 sq ft units. Tenants are continuing to adopt a 'wait and see' attitude towards relocation, expansion, and re-sizing. Some evidence of increased outsourcing to third-party logistics operators. Multi-let industrial unit demand remains surprisingly steady with interest across all business sectors. Trade counters also look steady, but trends suggest that some re-consolidation is likely among the various trading lines.
- Speculative development remains dormant and land prices are around 50% off peak. Commercial rates continue to discourage new building despite significant falls in construction costs and the price of steel.
- *CCRE view: Leasing demand limited as tenants take stock. Rents forecast to fall by around 8.5% in 2009 as void rates continue to increase, although the lack of development may moderate rental declines. SME multi-let industrial demand showing some resilience.*

Residential

- House price falls continued in December: Halifax -2.2% m/m and Nationwide -2.5% m/m. New mortgage approvals fell to new low of 17,800 in November.
- *CCRE view: Few signs of recovery; Halifax sees new stability in rise in buyer enquiries and newly agreed sales in November. Investment market dormant, but some signs of renewed interest and positive sentiment.*

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