

Are the Chancellor's forecasts for economic growth achievable?

Yields remain stable

- This month has seen a continuation of the trend that we reported last month. Prime yields, on the whole, held in March with only Shopping Centres reporting a further hardening of 25bp. However, in the City, yields are expected to harden further with 30 Finsbury Square under offer at 5.6%.
- Prime yields in most cases are now in line with, or below, their long term average levels. While a pick-up in demand is partly responsible for this, clearly the more significant driver has been shortages of prime stock to buy.
- Although investors are now becoming more selective in what they purchase, we believe that prime yields are sustainable at current levels and if demand continues to exceed supply, there will be further yield hardening, but at a slower rate.
- Concerns over potential falls in investment targeting property are starting to set in. For example, the investment Management Association reported that net retail inflows fell in February by 59% on the previous month. Although the flows are still in positive territory funds may choose a higher cash weighting over the short term.

Prime equivalent yields

	Mar-09	Feb-10	Mar-10
West End Offices	6.0%	4.50%	4.50%
City Offices	6.75%	5.75%	5.75%
Offices M25	7.5%+	6.25%	6.25%
Provincial Offices	7.0%	5.75%-	5.75%-
High Street Retail	6.5%	4.75%	4.75%
Shopping Centres	7.0%+	6.00%-	5.75%
Retail Warehouse (open A1)	7.0%-	5.00%	5.00%
Retail Warehouse Park (restricted)	8.5%+	6.00%	6.00%
Foodstores	8.5%	5.00%	5.00%
Industrial Distribution	7.5%	6.25%	6.25%
Industrial Multi-lets	8.25%+	6.25%-	6.25%-
Leisure Parks	8.5%	7.25%	7.25%
Regional Hotels	7.25%	6.75%	6.75%

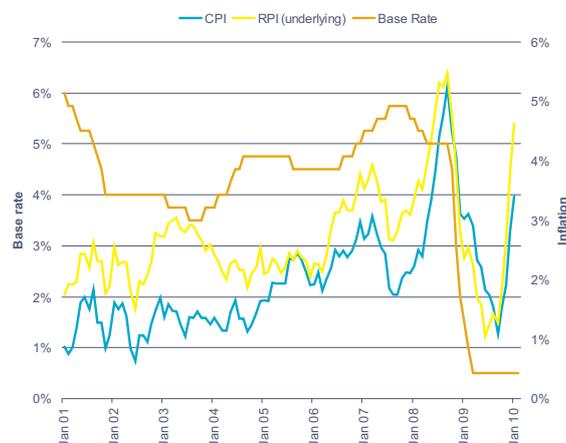
Source: Savills

Note: In some sectors initial yield pricing is becoming more relevant than equivalent yields. This particularly applies to retail warehousing and hotels where the figures indicated above are net initial yields. The +/- against the figures in the table above reflects the expected direction of movement in yields over the next 3 months.

Are interest rate rises a long way off?

- The Office for National Statistics indicate that consumer price inflation slowed to 3% last month from January's 14-month high of 3.5%.
- The better than expected figures are likely to cement the idea that price pressures have peaked and raise hopes that interest rate rises remain a long way off.
- In Savills view, we believe that inflation will continue to slow. While ending the year at just about the 2% mark, it will be 2011 that will see figures go below the Bank of England's 2% target.

Fears were alleviated when inflation fell by more than anticipated in February



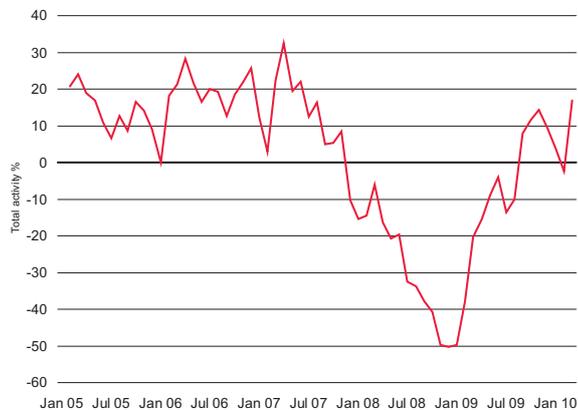
Source: ONS

Market in Minutes

The sharpest rise in commercial development activity since May 2007

- Our monthly monitor of UK development activity is on an upward trend. Commercial developers signalled a rise in overall business activity in February, and the rate of expansion was the fastest since May 2007.
- The increase in development activity was linked to improved economic conditions and a rebound following weather-related disruptions in January.
- Private sector retail & leisure activity increased for the second month running and at the fastest pace since March 2007.
- However, on the flip side, the latest data pointed to only a marginal rise in public sector retail & leisure activity, but this was the first increase since August 2009.

UK development activity is on an upward trend

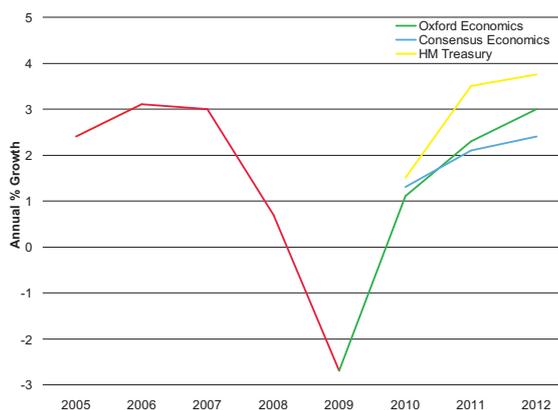


Source: PMI

Will the economy grow in 2011?

- The Chancellor's growth forecasts were dismissed as wishful thinking by some economists. If they are to be believed, the worst is over with some fairly strong growth to come. His expectation is a 3% - 3.5% growth next year. The consensus forecast is predicting a 2.1% growth.
- However, Savills forecasts highlight the malaise that the economy continues to inflict on the housing market. Savills predict that house prices are likely to fall again in the latter part of 2010, before a more sustained recovery from 2011.
- February's consumer confidence survey from GfK showed that the consumer mood in Britain has improved. However, a recent Reuters survey showed that retailers are bracing themselves for tougher trading this year. Of 31 industry leaders polled in February and March, 73% said they did not expect the consumer market to pick up until beyond 2011, more than double the 34% that felt this way in September last year.

The Chancellor predicts strong growth in 2011



Source: ONS, Oxford Economics, Consensus Economics, HMT

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