Market in Minutes

March 2010

Despite the prospect of rising gilt yields property will continue to prove attractive

Yield hardening restricted to one sector this month

- Prime yields, on the whole, held in February with only West End offices reporting a further hardening of 25bp. This was the lowest level of yield activity since yields first started to fall in April 2009.

- This may be the start of the slowdown in yield compression we forecasted for 2010. However, further falls, particularly for London offices are expected, as the development pipeline is heavily constrained until 2014 pointing to enhanced rental growth.

- It is also worth noting that to-date there has been little true 'prime' coming to the market as investors have held onto their best assets.

- The prospect of lower levels of yield hardening could see an increase in 'flipping' by investors keen to capitalise on last years improvement in values. For example, London & Stamford's recent sale of No.1 Whitehall Riverside, Leeds for £51.3m after purchasing the building in 2009, represented a return on equity of approximately 77%. Henderson also 'flipped' their Stanley Green Retail Park investment. Purchased in August 2009 at 7%, it was sold to Prupim in March at a 5.3% yield.

Prime equivalent yields

	Feb-09	Jan-10	Feb-10
West End Offices	6.00%	4.75%	4.50%
City Offices	6.50%	5.75%	5.75%
Offices M25	7.50%	6.25%	6.25%
Provincial Offices	7.00%	5.75%-	5.75%-
High Street Retail	6.50%	4.75%	4.75%
Shopping Centres	7.00%	6.00%-	6.00%-
Retail Warehouse (open A1)	7.00%	5.00%	5.00%
Retail Warehouse Park (restricted)	8.50%	6.00%	6.00%
Foodstores	-	5.00%	5.00%
Industrial Distribution	7.50%	6.25%	6.25%
Industrial Multi-lets	8.00%	6.25%-	6.25%-
Leisure Parks	8.50%	7.25%	7.25%
Regional Hotels	7.00%	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.

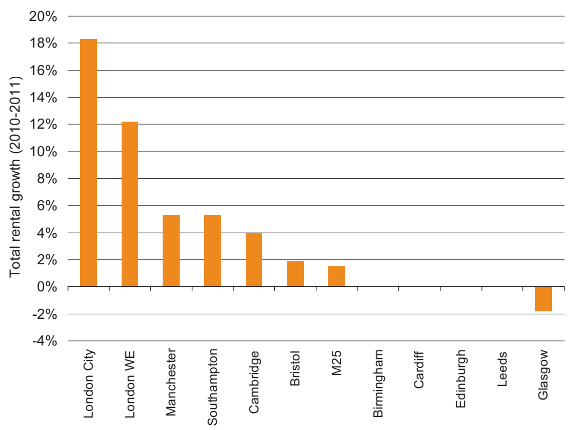
Central London leading the rental growth recovery

- As we said at the end of last year the key theme for 2010 will be a search for growth. The question is where will this growth be?

- In terms of income growth for offices, the Central London markets are showing the best prospects. Top rents are forecast to increase by 18% in the City and 12% for West End by 2011, largely driven by restricted supply of grade A and the Capital's better economic prospects.

- However, Manchester, Southampton and Cambridge also present attractive opportunities. Savills rental forecasts for the three cities point to between 5.3% and 4% over the next two years, largely driven by a shortage of grade A and improving occupier demand.

Central London offices will lead rental recovery



Source: Savills

Savills Research

savills.com/research

savills

Market in Minutes

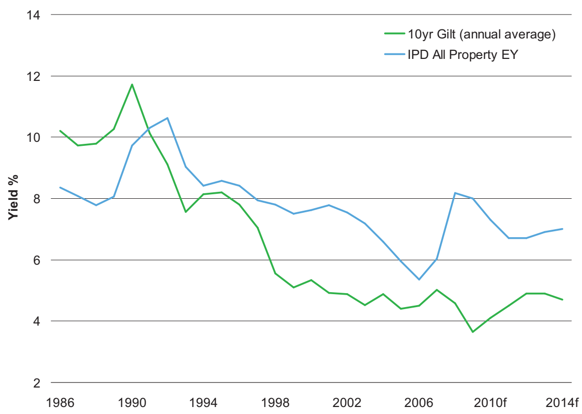
Does rising gilt yields present a potential risk to property investment?

- With interest rates at an all time low and property still looking relatively cheap, it has attracted investors looking for enhanced returns.

- However, it has been mooted that an improvement in gilt yields could attract investor interest away from ‘riskier’ property. While daily gilt yields are bouncing around 4%, forecasts to 2014 suggest that gilts will increase by 105bp with property yields falling by 100bp over the same period.

- Despite an improvement in gilts over the mid-term we don’t believe investor interest will be dampened. The current yield gap between gilts and property is at an all time high of 435bp. Even the forecast squeezing of this gap over the next 4 years to 233bp should continue to maintain investor interest. The real challenge will be the sourcing of appropriate stock.

Gilt and property yield movements



Source: Bank of England, IPD ©; Consensus Economics

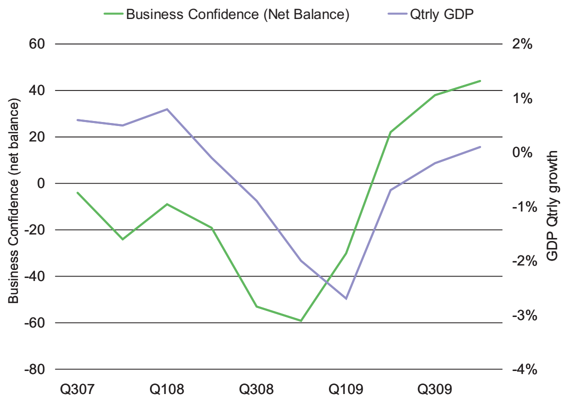
Business confidence bouncing back

- Unsurprisingly, consumer confidence took a knock during the recession, hitting an all time low in Q308. However, it was business confidence that saw the most dramatic dip.

- In line with improving economic conditions during 2009, business and consumer confidence levels did pick up. The largest gains were in the business sector where net confidence levels improved from -59 as of Q408 to +44 by the end of 2009. However, with weak reports from the housing, retail and manufacturing sectors, confidence in the wider economy remains on relatively shaky ground.

- GDP forecasts for 2010 continue to point to further gains, feeding confidence levels. Improving business confidence suggests corporate expansion and increased spending. This will have positive implications on office demand, placing upward pressure on rents, particularly in those markets with limited new supply coming through the pipeline.

Returning business confidence



Source: ONS; Deloitte CFO Survey

Savills Commercial Chairman & Chief Executive Mark Ridley, +44 (0)20 7409 8030 mridley@savills.com
Savills Commercial Research Marie Hickey, +44 (0)20 3320 8288 mlhickey@savills.com

Savills plc
Savills plc is a leading international property services company with a full listing on the London Stock Exchange. The company has undergone dynamic growth in recent years establishing itself as a powerful player on the international stage with offices and associates throughout the UK, Europe, Americas, Asia Pacific, Africa and Middle East. In addition, Savills is the trading name for the property service subsidiaries of Savills plc which advise on commercial, rural, residential and leisure property. Other services include corporate finance advice, property and venture capital funding and a range of property related financial services.

Savills
Research

savills.com/research

savills