

## The UK is facing some headwinds in 2011, but the prospects are good thereafter

### Yields remain stable for the fourth consecutive month

- The UK average prime yield remained stable this month at 5.73%.
- Interestingly, two sectors are seen as now having some downward pressure on yields as investors begin to look for a combination of sectors that offer asset management opportunities (in the case of industrial estates) or comparative under-pricing (in the case of leisure parks).
- As we have highlighted in previous issues of Market in Minutes, investors have now fallen into one of two camps. The majority remain heavily risk-averse, focusing on prime, "dry" investments that are seen as having little exposure to economic volatility. However, there is now a growing number of investors who are seeking rental growth opportunities and who are prepared to look beyond AAA assets for those that will deliver above average rental growth over the next five years.
- In terms of investment volumes Q4 has started slowly, but there is a significant amount of property under offer across the UK and the traded volume for 2010 to date is already 13% higher than 2009. We expect to see more sales next year, particularly from NAMA.

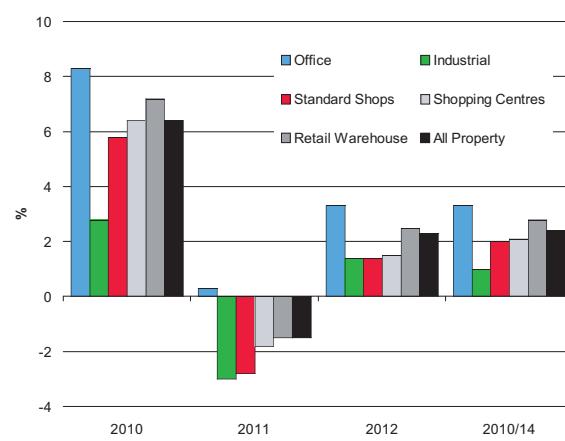
### Prime equivalent yields

	Nov-09	Oct-10	Nov-10
West End Offices	5.00%	3.75%	3.75%
City Offices	6.00%	5.25%	5.25%
Offices M25	6.50%	6.50%	6.50%
Provincial Offices	6.00%	6.00%	6.00%
High Street Retail	5.25%	5.00%	5.00%
Shopping Centres	6.00%	5.75%	5.75%
Retail Warehouse (open A1)	5.25%	5.25%	5.25%
Retail Warehouse Park (restricted)	6.75%	6.25%	6.25%
Foodstores	4.50%	4.50%	4.50%
Industrial Distribution	6.25%	6.50%	6.50%
Industrial Multi-lets	6.25%	6.25%	6.25% -
Leisure Parks	7.50%	6.50%	6.50% -
Regional Hotels	7.00%	7.00%	7.00%

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.

### IPF consensus forecast for average capital growth is for a marginal fall in values in 2011



Source: Investment Property Forum

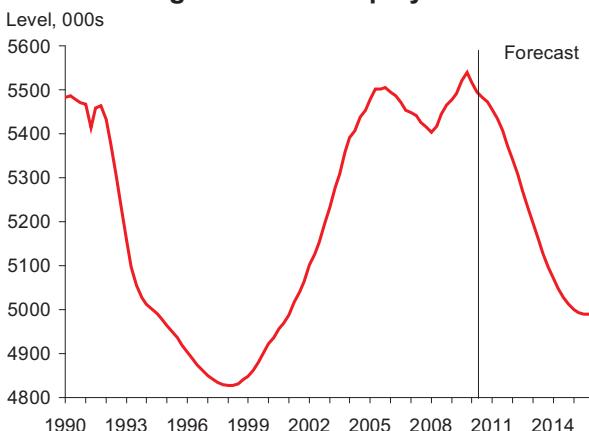
# Market in Minutes

## Public sector austerity - not as bad as the 1990's?

- The economic topic of 2011 will undoubtedly continue to be public sector austerity as the bulk of the cuts are expected to hit next year.
- The latest official report from the Office for Budget Responsibility has revised down the expected public sector job losses by 160,000. This is primarily due to the decision to switch some of the burden of cuts from departmental spending to benefits.
- So how bad is it going to be in relation to past cycles? We recently received this interesting chart from Oxford Economics that compares the falls in government employment in the mid 1990's to today. Their view is that the tax rises and less capital spending will result in fewer job losses in the public sector than we saw last time around.

## Fewer public job cuts ahead than many expected?

### UK: General government employment

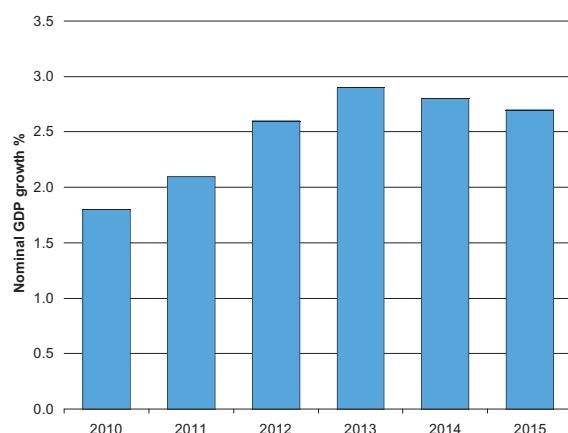


Source: Oxford Economics

## Reasons to be cheerful?

- At this stage of the cycle it is always easy to remain in the habit of being cautious or negative about the future. However, the latest forecasts for the UK economy from the Office for Budget Responsibility are cautiously optimistic. Indeed, some commentators are of the view that they are too cautious given the recovery in the private sector and the progress on deficit reduction.
- The official forecast is now that the UK economy will grow by 2.1% in 2011, and 2.6% in 2012. Given the headwinds of a rising tax burden and weakening Euro that are likely to be in place in 2011, this below trend growth looks sensible. The latter point is particularly important given that net trade boosted UK GDP growth fairly strongly in the third quarter of 2010. The UK has grown by between 2.5% and 3.0% per annum out of all of the last three recessions, so the latest projections looks sensible in an historic context.

## UK economy to return to trend growth from 2012



Source: OBR

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