savills

Market in Minutes
Looking beyond the Central London investment market

May 2012

Prime yield movement confined to one sector

■ Last month's hope that there was a flicker of change on the horizon for prime yields did materialise. However, this was confined to prime Regional Hotels which saw a 25bps softening to 7%.

■ The same four sectors highlighted last month have again been flagged for outward yield movement. Yet the likelihood of this materialising over the short-term is unlikely as lack of market evidence has made it increasingly difficult to accurately place yields.

■ High Street Retail prime yields are one of the few sectors where recent evidence exists that support prime yields at 4.75%. For some ultra prime retail markets such as Bond Street and Oxford Street record yields have been achieved at 3% and 4% respectively.

■ Despite the ongoing Euro crisis, there has been little impact on prime yields. With this still to be fully resolved we suspect that prime yield stagnation will remain during 2012.

Beyond Central London

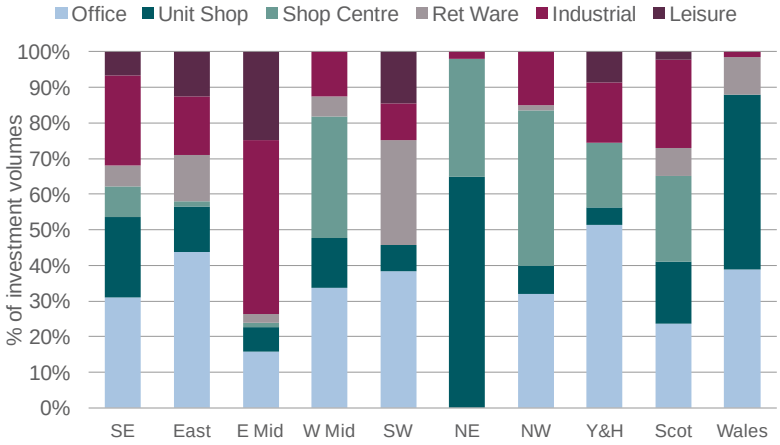
■ It would be easy to assume that investment activity in the regions has dried up. However, while London continues to dominate, the regions accounted for 48% of total volumes last year in line with the long run annual average of 51%.

■ After London the most active regions to date this year have been the South East with volumes of £770m, followed by Scotland with £444m and West Midlands with £441m. The North East saw the least activity with only £56m of transactions.

■ What is more interesting are the differences in sector activity between the regions. For example, Scotland volumes have an almost equal weighting to offices, shopping centres and industrial of approximately 25%. In the West Midlands, offices and shopping centres each accounted for 34% of total volumes. In contrast offices accounted for 91% of investment activity in London.

GRAPH 1

2012 UK investment volumes broken down by region and property type



Graph source: Property Data

TABLE 1

Prime equivalent yields

Address	May 11	April 12	May 12
West End Offices	3.75%	3.75%	3.75%
City Offices	5.25%	5.25%	5.25%
Offices M25	6.50%	6.25%	6.25%
Provincial Offices	6.00%	6.00%	6.00%+
High Street Retail	4.75%	4.75%	4.75%
Shopping Centres	5.75%	5.50%	5.50%
Retail Warehouse (open A1)	5.25%	5.25%	5.25%+
Retail Warehouse (restricted)	6.00%	5.75%	5.75%+
Foodstores	4.25%	4.50%	4.50%
Industrial Distribution	6.25%	6.25%	6.25%+
Industrial Multi-lets	6.25%	6.00%	6.00%
Leisure Parks	6.25%	6.50%	6.50%
Regional Hotels	6.75%	6.75%	7.00%

Table source: Savills

The Olympic boost?

■ The Olympics are being touted as a cash cow, increasing visitor numbers and in turn spend. Having looked at previous Games however, it may not generate the retail boost some would expect.

■ Looking at the Sydney Games in 2000, All Retail Sales during the event were down 0.7% on the long term average with an additional 2.8% fall the following month. The only sector to see a marked boost were the cafe's and restaurants with sales up 8.3%.

■ While Athens 2004 did see positive retail sales growth it was not significant, up only 1.5% on the long term average for August. This marginal growth is more pronounced considering that the adjacent months outside the Olympic period reported stronger growth.

■ This does raise some concerns surrounding the potential benefits of this summer's Olympics. As seen in Sydney we may see a surge in spending, particularly household, pre the Olympics as people choose to bring forward purchases in order to avoid the Olympic crowds. Whether London's strength as a retail destination will be enough to encourage significant Olympic visitor spend to counteract the potential fall in domestic spend remains to be seen.

Finally, some good news

■ Positive economic stories have been light on the ground of late. The dark cloud on the horizon for some time has been the potential exit of Greece from the Eurozone and the turmoil this would generate in the global economy. This may soon be resolved following the narrow victory of Greece's Pro-bailout New Democracy party at the weekend.

■ However, Greece is not out of the woods yet. While The New Democracy party want to stay in the Euro they will push for a lightening of the bailout terms from Brussels. While initially there appeared to be little room for negotiation there is some flexibility over timing of the implementation of the reforms and we may see further concessions made.

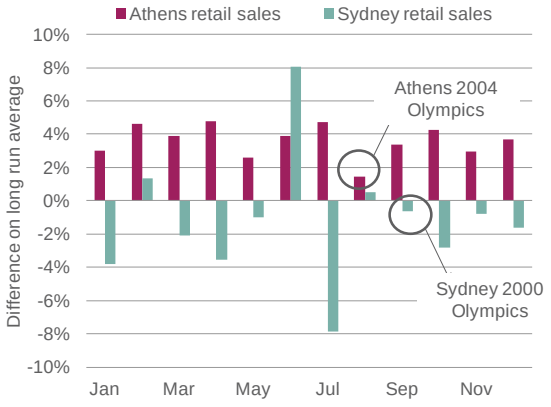
■ The recent announcement that inflation fell last month to a two and half year low of 2.8% (CPI measure) also helped to rally markets in the wake of the Greece election.

■ The UK Government's recent stimulus package to get banks lending again was enhanced by the quiet announcement by the Bank of England to allow UK banks to run down their cash reserves. This could boost the stimulus package to about £300bn. Analysts believe this U-turn means that at least £150bn invested in gilts could be released for lending to companies and consumers.

■ The decline in private sector lending seen over the last two years has been acute, whereas during past recessions lending growth slowed. It is hoped that this stimulus package will provide a much needed kick-start to economic recovery.

GRAPH 2

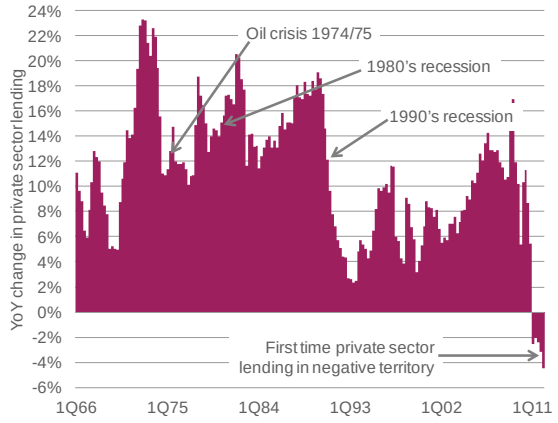
The Olympics may not necessarily mean a surge in retail sales



Graph source: Elstat; Australian Bureau of Statistics

GRAPH 3

Private sector lending in negative territory



Graph source: Bank of England

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