

## Valuation Advisory – December 2010

### Finance

- US Federal Reserve Rate at 0.25%.
- UK Base Rate unchanged at 0.5%. £200 billion spent in the Bank asset Purchase program (purchases have ceased for the moment).
- 5-Year Swap Rate 2.32% and continues to increase (Beginning November 2.08%). 10-Year Rate 3.37% (Beginning November 3.16%).
- Bank lending between banks, 75% maximum, margins range from 150 basis points plus, depending on asset, borrower and LTV with imperative of interest covered by income. Lending still tight.
- Margin of LIBOR above Base Rate circa 24 basis points (LIBOR at 0.74). No change.

### Economic View

- The FT 100 index at 5,641, down from 5,695 at the beginning of November and much more volatile. This compares to 5,134 this time last year.
- Inflation RPIX (excluding mortgage interest payments) at 4.5%, forecast to be circa 4.6% for 2010. The CPI (consumer price index) at 3.2%, forecast at circa 3.2% for 2010. The largest downward pressures to the change in CPI inflation came from a variety of transport costs.
- Average Earnings growth (including bonuses) at 2.0% in year to August. (1.8% private sector and 2.3% public sector).
- Year on year, the volume of retail sales in October was 0.1 per cent lower than in October 2009. Predominantly food stores decreased by 2.0 per cent while predominantly non-food stores increased by 2.5 per cent.
- Year on year, output of the Service sector for September 2010 rose 2.5 per cent compared with September 2009. All components of the Service sector increased. The largest contribution to the increase was business services and finance which rose 3.4 per cent.
- Total manufacturing output increased by 4.8 per cent in September 2010 compared to the same month a year ago. Output increased in ten of the 13 sub-sectors, fell in two sub-sectors and was flat in one. The largest contributors to the increase were the machinery and equipment industries
- CIPS Index Measure of Productivity was at 58.0 in November. Highest level since September 1994.
- Unemployment at 7.7% of workforce.
- House prices fell slightly by 0.3% in November.
- Food Prices up by 4.5% year to October (5.1% to September).
- GDP growth forecast of 1.7% for 2010. After being negative for 18 months, GDP remained positive in Q2 (1.2%) and Q3 2010 at 0.8%.

### Property View

- IPD Total Returns for all Property in the 12 months to October 2010 20.4% (September 2010 22.6%).
- IPD Total Returns for the sectors in the 12 months to October 2010 were: - Offices 20.4% (September 2010 21.7%) Industrial 16.0% (September 2010 17.8%), Retail 21.9% (September 2010 25.1%).
- All rents index down by 0.01%. (Offices increase 0.04%, Industrial down 0.1% and Retail down 0.1%)
- Investment volume £27,700m in year to 30 November 2010. (Compared to £20,853m in 2009). Overseas investors, Property Companies, "Opportunity" Funds and some Pensions Funds all active.

## Sentiment

Shortage of product. Demand good and selectively competitive for quality London assets. Otherwise prices stable for prime and good property. Buyers from Germany, US, Middle East also UK private/"opportunity" fund/investors property companies, UK institutions buying selectively. A few more sales from Bank disposals/restructuring. IPD all property equivalent yield at the end of October 7.40%. Risk of tenant default and falling rental values/voids still having negative impact on poor secondary values.

## International

- US latest indicators mixed, overall slowly improving economy but some areas of weakness. GDP forecast to grow by circa 2.7%. Unemployment 9.6%. More quantitative easing planned.
- Brent Crude spot at \$86.
- European GDP is forecast to grow by 1.7% in 2010.
- GDP in Eastern Europe to grow by 3.9% in 2010.
- Japan's GDP to grow by 3.0% in 2010.
- Business improving across Asia, GDP growth forecast for 2010 of 6.7%.
- China overtook Japan in August to become world's second biggest economy, overall 2010 GDP forecast at 10.1%. Continued need to manage debt fuelled growth across the regions and bank lending. Powerful export performance being maintained.

## Jones Lang LaSalle Prime Yields

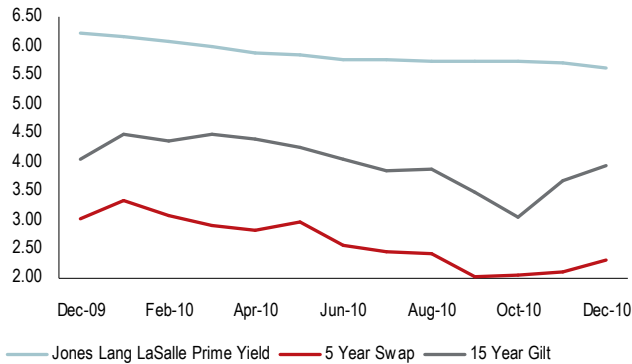
Sector	Yield	Movement since last month	Movement over last 12 months
<b>RETAIL</b>			
Prime High Street	4.75%	↔	↓
Regional High Street	5.50%	↔	↓
Food stores - Supermarkets	4.50%	↔	↓
Shopping Centre (regional dominant)	5.50%	↔	↓
Shopping Centre (secondary)	7.50%	↔	↓
Retail Warehouse, solus unit - Bulky	6.50%	↔	↓
Retail Warehouse (Open A1/Fashion parks)	5.25%	↓	↓
<b>OFFICES</b>			
City (lot size up to £40m)	5.25%	↔	↓
West End (£10m to £80m)	4.25%	↔	↓
Fringe City / Inner London	6.50%	↔	↓
Regional City Centre	6.00%	↔	↓
Business Parks – South East	6.75%	↔	↓
<b>INDUSTRIALS</b>			
South East Single Let	6.25%	↓	↓
Regional Single Let	6.75%	↔	↓
South East Multi Let	6.00%	↓	↓
Regional Multi Let	7.25%	↔	↓
<b>LEISURE</b>			
City Centre	7.00%	↔	↓
Out of Town	6.50%	↓	↓
<b>Jones Lang LaSalle Prime Yield</b>	<b>5.62%</b>	<b>↓</b>	<b>↓</b>
<b>MONEY MARKETS</b>			
Swap (5 year)	2.32%	↑	↓

Note: Yields are generated by Jones Lang LaSalle based on the latest evidence of deals by Jones Lang LaSalle and other agents. The prime yield series is a weighted yield (derived from capital values) based on individual prime yields.

- Prime yield relates to well-specified, well configured Grade A stock let at a rack rent on a 10-15 years lease in a prime location to a strong covenant.

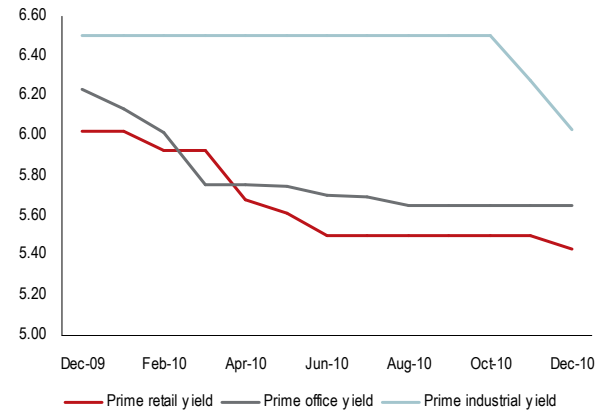
## Interest Rate Influence on Prime Yields

Source: Jones Lang LaSalle; Datastream



## Jones Lang LaSalle Prime Yields

Source: Jones Lang LaSalle



Prime industrial yields continued to harden over the past month, moving in twenty five basis points to 6.03%. In addition, prime retail yields showed movement for the first time in six months, hardening to 5.43%. Reflecting this, the Jones Lang LaSalle prime weighted yield moved in by eight basis points to 5.62%.

- Sentiment within the City offices market remains strong, but occupier demand is being driven by structural events rather than new requirements. Take-up remains in line with the 10-year average. A lack of supply is propping up rental growth for prime properties. An increase in capital transactions is expected up to the year-end, with more product expected to come on to the market in 2011. The key investment deal in November was the sale of Bath House, 52–60 Holborn Viaduct, by Favermead Investors to AXA REIM for £45m. Prime office yields (for lot sizes below £40m) remained stable at 5.25% for the seventh consecutive month.
- Investment activity within the West End office market shows no sign of receding, however, the disconnect between prime and secondary properties now stands at 200–300 basis points. In line with the City office market, a restricted supply of properties is supporting rental growth projections. A notable deal last month was the purchase of 40 Portman Square by Aerium Finace Ltd for £181m from Malaysian Employees PF, reflecting a yield of 5.50%. Prime yields in the West End remained unchanged at 4.00% for lot sizes below £10m and 4.25% for larger lot sizes (£10m - £80m).
- Investment activity on the high street has been driven by institutional investors and family trusts, whilst shopping centres are attracting the REITs, PropCos and the institutions. Investment in both high street retail and shopping centre assets has been constrained by a lack of good quality available stock. A lack of prime product is particularly notable in the shopping centre market, yet the constant supply of secondary stock, if priced and packaged correctly, is attractive to some investors. Prime yields for both shopping centres and high street retail assets remained stable for the seventh month running, at 5.50% and 4.75% respectively. Pricing aspirations on the high street are stabilising, however 'super prime' lots may break the 4.75% barrier.

- Investment activity in the industrial and warehousing market has been subdued over the autumn but levels of stock coming on the market are beginning to increase as investors rebalance their portfolios. Vendors have started to test the market with secondary assets; however, the lack of interest has meant that they are considering re-pricing to attract those priced out of the market. A weight of money is thought to be chasing well-let industrial estates, with aggressive bidding seen on South Eastern multi-let assets. Prime yields for both single and multi-let assets moved in this month, to 6.25% and 6.00% respectively.

**Contact:****Andrew Renshaw**

Head of Valuation and Professional Advisory | 020 7399 5566 | (andrew.renshaw@eu.jll.com)

**Jeremy Handley**

Director | Valuation Advisory Group | 020 7399 5813 | (jeremy.handley@eu.jll.com)