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MarketView

# UK Prime Rent and Yield Monitor

Quarter 1 2012

## POSITIVE RENTAL GROWTH FOR LONDON IN Q1

- There was some positive growth for prime rents in the first quarter, with London once again pulling the wider UK figure into positive territory. Overall the Prime All Property rental index grew by 0.2% in Q1, and has been largely flat over the past year given the cooling in economic sentiment. Offices and Industrials were the strongest sectors, each with growth of 0.4%, buoyed by some upward movement in certain London sub-markets.

- Investment market sentiment remained neutral once again this quarter, with the All Property yield staying flat at 6.1% for the 5th consecutive quarter. This came despite a 3bp outward movement caused by a weakening in retail warehouses and some of the northern office markets. There were no markets with any significant downward pressure on yields, with the majority seeing yields hold over the quarter. There remains evidence that in most regions outside the South East, yields remain fragile and that outward movements are imminent given weak transaction levels and sentiment in those markets.

- The property/gilt yield gap decreased slightly in the first quarter of 2012, as gilt yields moved out to 2.2%. This took the gap to just under 400bp.

- The first quarter of 2012 ended in a flurry of deals, predominantly in Central London Offices, where around £4bn was transacted. This took the overall figure for Q1 to £7.5bn.

## PRIME RENTAL GROWTH AND YIELDS: SUMMARY

### Nominal Rental Growth %

| | Quarter on Quarter % | Year on Year % |
|---|---|---|
| All Property | 0.2 | 0.1 |
| Shops | 0.0 | 0.5 |
| Shopping Centres | -0.1 | -2.7 |
| Retail Warehouses | -0.1 | -0.8 |
| Offices | 0.4 | 1.4 |
| Industrial | 0.4 | 0.7 |

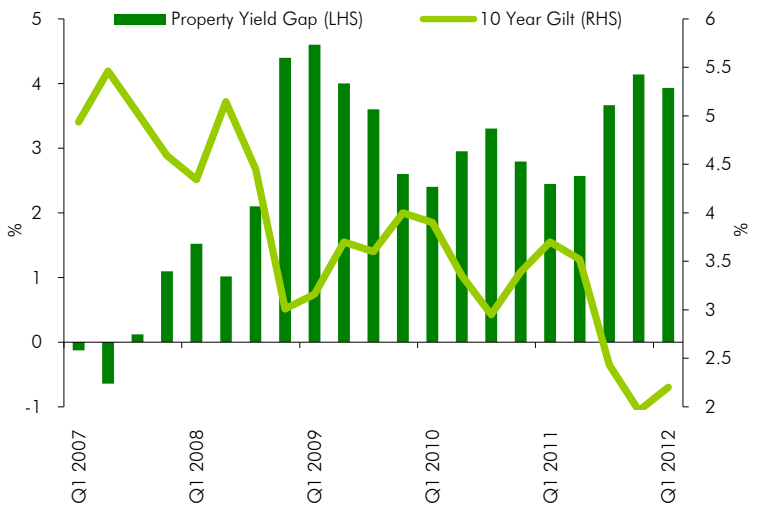
Source: CBRE

### Prime Yields and Comparators, % Change

| | Q3 2011 | Q4 2011 | **Q1 2012** | Q o Q % | Y o Y % |
|---|---|---|---|---|---|
| All Property | 6.1 | 6.1 | **6.1** | 0.0 | 0.0 |
| Shops | 5.6 | 5.6 | **5.6** | 0.0 | 0.0 |
| Shopping Centres | 5.9 | 5.9 | **5.9** | 0.0 | 0.0 |
| Retail Warehouses | 5.8 | 5.8 | **6.0** | 0.1 | 0.1 |
| Offices | 6.0 | 6.0 | **6.0** | 0.0 | -0.1 |
| Industrial | 7.4 | 7.4 | **7.4** | 0.0 | 0.0 |
| Gilts | 2.4 | 2.0 | **2.2** | 0.2 | -1.5 |
| Base Rates | 0.5 | 0.5 | **0.5** | - | |

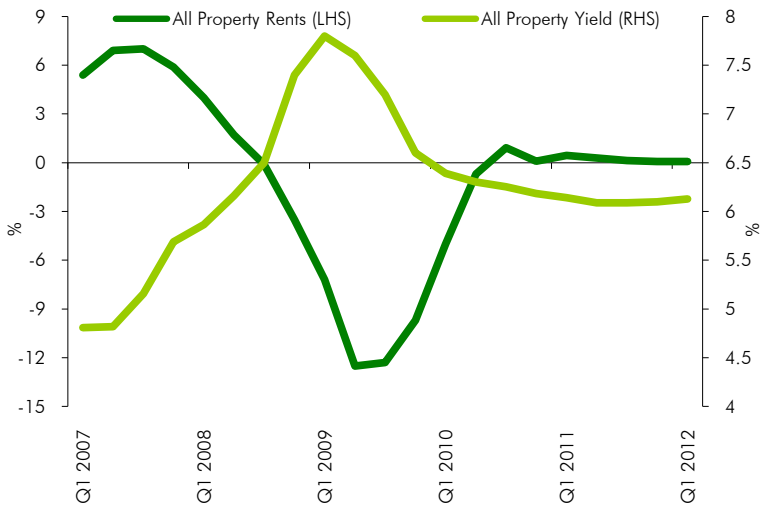
Source: CBRE, Macrobond

### PROPERTY YIELD GAP




Source: CBRE, Macrobond

### ALL PROPERTY ANNUAL RENTAL GROWTH & YIELDS




Source: CBRE

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## OFFICES

Certain Central London markets showed signs of stalling, with only the West End recording rental growth of 1.2% in Q1. Suburban London had a strong quarter, recording growth of 1.3% after a few larger centres saw prime rents increase over the quarter. This made Suburban London the strongest region in Q1, and helped the overall sector record positive growth of 0.4% this quarter. Elsewhere prime rents were largely flat, with just the South East and North West seeing minor gains,, whilst the Eastern region saw a minor contraction of 0.6% in prime rents.

Over the past year prime office rents grew by 1.4%, with 10 of the 17 regions covered seeing growth whilst just 4 regions saw rents decline over the past year. The West End remains the trailblazer, with rental growth of 3.9% over the year, whilst prime rents in Wales fell by 3.7%.

Weakening investor sentiment was evident across certain markets, with 7 regions seeing minor upward movement in their prime yields; whilst the majority of markets were stable over the quarter. The headline Office yield moved out a few bps, but ultimately stayed flat at 6.0% in Q1.

## RETAIL

Prime occupier markets on the high street showed the most distress in Q1, with 5 regions seeing declines in prime rental levels amid news of further retailer defaults in recent months. Saying this, the negative growth seen in these markets was wholly offset by continued strength from the Central London market, which saw growth of 2.4%, leaving All Shops neutral over the quarter. The trend for prime shopping centres reversed, with in-town centres recording positive growth of 0.4% whilst it was out of town centres that saw a contraction, this time 1.9%. This highlights the fragility in the shopping centre occupier market at present. Out of town centres were largely flat, with a fractional decline of 0.1% caused by minor weakness in Fashion and Open A1 centre rents.

Over the past year, prime shops have been the only retail sub-sector to record positive growth, buoyed by the Central London region offsetting weaknesses elsewhere. Shopping centres and retail warehouses have seen declines in rents, down by 2.7% and 0.8% respectively.

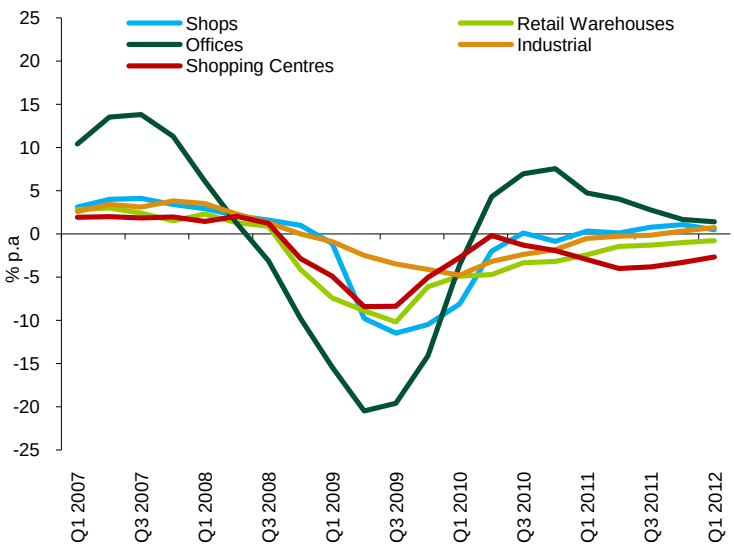
Retail warehouses, the most volatile sub-sector, showed the greatest distress this quarter, with prime yields moving out 10bps to 6.0%. Both shops and Shopping centres saw yields hold firm at 5.6% and 5.9% respectively.

## INDUSTRIAL

There was further strengthening in the prime industrial occupier markets, with growth of 0.4% in prime rents for the second consecutive quarter. This growth was largely thanks to the South East markets, including Greater London and Eastern seeing decent growth. Whilst most other markets saw rents flat. Over the year, prime industrial rents have now grown by 0.7%, with just the South West and Scotland seeing declines over this period.

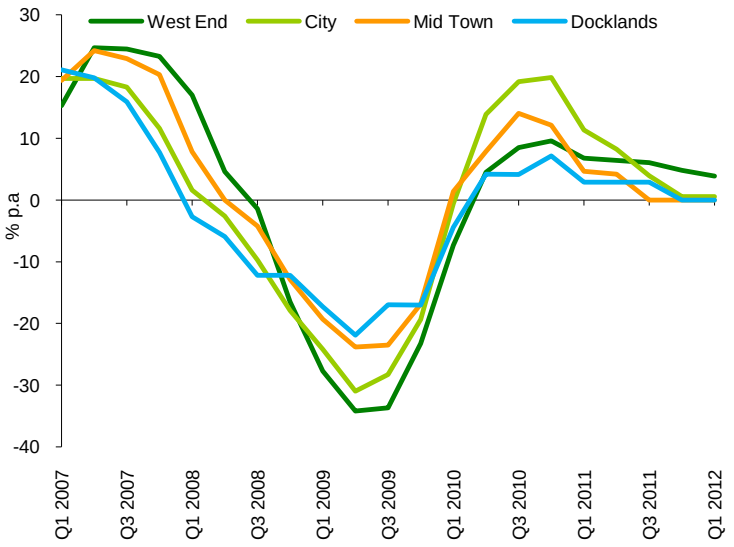
Prime yields were flat in Q1, with the headline yield staying at 7.4% for a seventh consecutive quarter.

### ANNUAL SECTOR RENTAL GROWTH



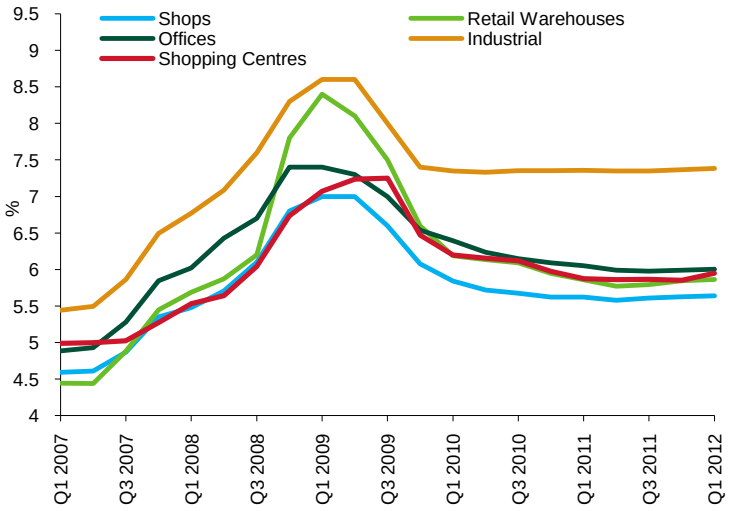

Source: CBRE

### CENTRAL LONDON OFFICE SUBMARKET RENTAL GROWTH




Source: CBRE

### ALL UK SECTOR YIELDS




Source: CBRE



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## CBRE PRIME RENT AND YIELD MONITOR, Q1 2012

| | Rental Growth (%) | | | Actual Yields | | Yield Shift | |
|---|---|---|---|---|---|---|---|
| | Q-on-Q | Y-on-Y | 5 Year p.a. | Q4 2011 | Q1 2012 | Q-on-Q | Y-on-Y |
| **All Property** | 0.2 | 0.1 | -1.7 | 6.1 | 6.1 | 0.0 | 0.0 |
| All Shops | 0.0 | 0.5 | -1.6 | 5.6 | 5.6 | 0.0 | 0.0 |
| Central London | 2.4 | 6.4 | 4.3 | 4.2 | 4.2 | 0.0 | -0.2 |
| Suburban London | -0.3 | -0.6 | -0.1 | 5.9 | 5.9 | 0.0 | 0.0 |
| South East | -2.1 | -3.6 | -1.9 | 5.8 | 5.9 | 0.0 | 0.1 |
| Eastern | -0.3 | -0.9 | -2.1 | 6.2 | 6.2 | 0.0 | 0.1 |
| South West | -3.3 | -6.6 | -6.6 | 5.9 | 5.9 | 0.1 | 0.1 |
| East Midlands | 0.0 | 0.4 | -2.5 | 6.6 | 6.6 | 0.0 | 0.3 |
| West Midlands | 0.0 | -0.9 | -2.8 | 6.2 | 6.3 | 0.0 | 0.1 |
| Wales | -2.0 | -8.2 | -6.9 | 6.9 | 7.0 | 0.1 | 0.4 |
| North West | 0.4 | 1.4 | -3.7 | 6.4 | 6.5 | 0.0 | 0.2 |
| Yorkshire & Humberside | 0.0 | 0.2 | -4.8 | 6.1 | 6.2 | 0.0 | 0.1 |
| North East | 0.6 | 0.9 | -6.1 | 6.4 | 6.4 | 0.0 | 0.1 |
| Scotland | 0.0 | 0.8 | -2.2 | 6.3 | 6.4 | 0.0 | 0.2 |
| All Shopping Centres | -0.1 | -2.7 | -2.4 | 5.9 | 5.9 | 0.0 | 0.0 |
| In Town | 0.4 | -3.7 | -2.8 | 5.9 | 5.9 | 0.0 | 0.0 |
| Out of Town | -1.9 | -0.3 | -1.4 | 5.7 | 5.7 | 0.0 | 0.0 |
| All Retail Warehouses | -0.1 | -0.8 | -2.7 | 5.8 | 6.0 | 0.1 | 0.1 |
| Bulky | 0.0 | -2.1 | -4.5 | 6.4 | 6.6 | 0.1 | 0.1 |
| Fashion | -0.1 | -0.1 | -0.9 | 5.4 | 5.5 | 0.1 | 0.2 |
| Open A1 | -0.1 | -1.8 | -2.2 | 5.6 | 5.7 | 0.1 | 0.0 |
| All Offices | 0.4 | 1.4 | -1.7 | 6.0 | 6.0 | 0.0 | -0.1 |
| West End | 1.2 | 3.9 | -2.8 | 4.8 | 4.8 | 0.0 | 0.0 |
| City | 0.0 | 0.6 | -3.0 | 5.2 | 5.2 | 0.0 | -0.1 |
| Mid Town | 0.0 | 0.0 | -1.6 | 5.5 | 5.5 | 0.0 | -0.1 |
| Docklands | 0.0 | 0.0 | -4.6 | 5.4 | 5.5 | 0.0 | -0.1 |
| Fringe London | 0.0 | 0.0 | -0.9 | 6.7 | 6.7 | 0.0 | -0.1 |
| Southbank | 0.0 | 4.5 | -1.3 | 5.9 | 5.9 | 0.0 | 0.0 |
| Suburban London | 1.3 | 2.3 | 0.4 | 7.1 | 7.1 | 0.0 | 0.0 |
| South East | 0.2 | -0.5 | -0.3 | 7.4 | 7.5 | 0.1 | 0.0 |
| Eastern | -0.6 | 0.4 | 0.8 | 7.8 | 8.0 | 0.1 | 0.3 |
| South West | 0.0 | -1.7 | -0.2 | 7.6 | 7.7 | 0.1 | 0.2 |
| East Midlands | 0.0 | 1.4 | 1.5 | 8.0 | 8.1 | 0.1 | 0.3 |
| West Midlands | 0.0 | 0.5 | -0.4 | 7.7 | 7.8 | 0.0 | 0.2 |
| Wales | 0.0 | -3.7 | -0.5 | 7.8 | 7.9 | 0.0 | 0.1 |
| North West | 0.3 | 1.5 | 0.5 | 7.9 | 8.0 | 0.2 | 0.2 |
| Yorkshire & Humberside | 0.0 | 1.7 | -1.1 | 7.9 | 8.0 | 0.1 | 0.4 |
| North East | 0.0 | 1.3 | -1.6 | 8.0 | 8.2 | 0.3 | 0.6 |
| Scotland | 0.0 | -0.5 | 1.1 | 7.4 | 7.5 | 0.0 | 0.2 |
| All Industrial | 0.4 | 0.7 | -0.4 | 7.4 | 7.4 | 0.0 | 0.0 |
| London | 1.0 | 1.0 | 0.4 | 6.8 | 6.7 | 0.0 | -0.1 |
| South East | 0.6 | 0.3 | -0.2 | 7.3 | 7.3 | 0.0 | 0.0 |
| Eastern | 0.3 | 0.3 | -0.5 | 7.5 | 7.5 | 0.0 | 0.0 |
| South West | 0.0 | -2.0 | 0.7 | 8.0 | 8.0 | 0.0 | 0.1 |
| East Midlands | 0.0 | 1.5 | -2.1 | 7.5 | 7.6 | 0.1 | 0.1 |
| West Midlands | 0.0 | 1.5 | -2.7 | 7.2 | 7.2 | 0.0 | 0.0 |
| Wales | 0.0 | 0.0 | -1.2 | 8.0 | 8.0 | 0.0 | 0.0 |
| North West | 0.0 | 2.9 | 0.2 | 8.0 | 8.0 | 0.1 | 0.2 |
| Yorkshire & Humberside | -0.6 | 0.7 | -0.7 | 7.8 | 7.8 | 0.0 | 0.1 |
| North East | 0.0 | 2.8 | -1.4 | 8.1 | 8.2 | 0.1 | 0.2 |
| Scotland | 0.5 | -0.4 | 1.1 | 8.6 | 8.6 | 0.0 | 0.4 |

**The CBRE average prime yields are calculated from a sample size of circa 850 data points, on a nominal equivalent basis.

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