

The economy

Confidence continues to grow

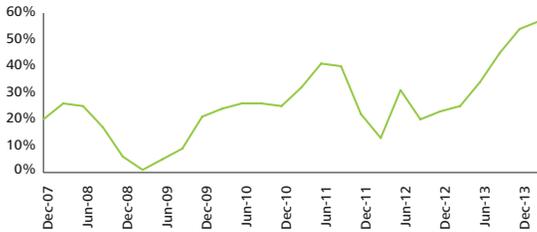
Changing consensus forecasts for GDP growth



GDP growth prospects build steadily

- The economy is expanding faster than most expected. The first estimate for Q4 GDP put annual growth in the economy at 1.9%, ahead of both the 10-year average and of the consensus of forecasts during the year.
- In Q4 expansion was recorded across all parts of the service sector as well as in the production industries. The latest round of predictions expect to see growth of around 2.6% during 2014, which is behind the Bank of England's revised figure of 3.4%.

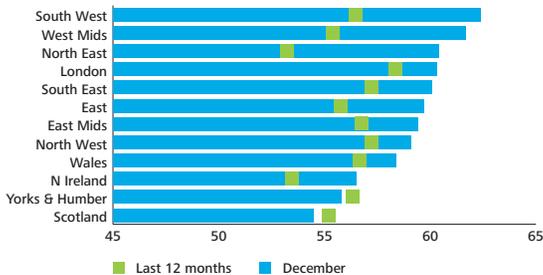
Risk appetite
% of CFOs who think this is a good time to take greater risk onto their balance sheets



CFOs' thoughts turn to risk ...

- Part of the reason for this increasingly optimistic view is the shift among businesses towards expansionary action.
- Deloitte's latest *CFO Survey* shows that decision-makers within the largest firms perceive that the level of economic uncertainty and the risk of a further recession are both abating, and, for 57% of them, now is a good time to take more risk onto the balance sheet.

PMI Regional Business Activity



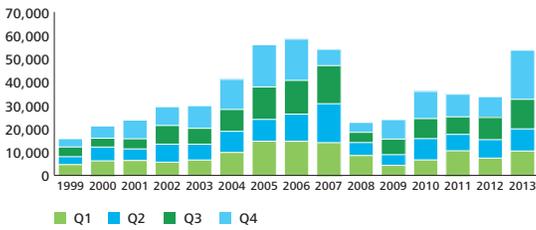
... and regional output picks up

- Over the final quarter of the year, all regions reported an increase in output, as measured by Markit's PMI. While London retains the highest average score over the last 12 months, its latest readings show a small dip, and other regions, notably the South West and the West Midlands, are now showing a faster rate of growth.
- This is consistent with commercial property performance data showing the recovery moving out across the major regional cities.

UK commercial property

Investment activity hits a high

Property investment by quarter (£ million)

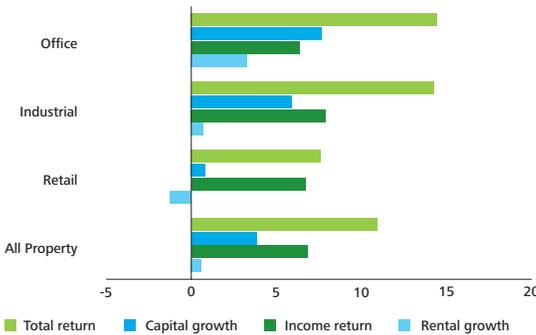


Source: Property Data

Deal volumes at a seven-year high

- An extraordinarily active final quarter propelled the total volume of investment deals last year to over £53bn, a level last seen in 2007, with an unmatched £20bn of deals made in the final quarter.
- UK institutional funds increased their activity notably over the second half of the year and this has continued, while steadily positive inflows from retail investors into pooled funds point to further demand to expand portfolios. Meanwhile, Far Eastern and Middle Eastern purchasers remain strong net investors.

Performance by sector, year to December 2013 (%)



Source: IPD

Office performance boosted by capital values ...

- The office sector remains the favoured target for the bulk of investors. Take-up levels in the central London markets finished the year strongly and rental growth is expected to spread beyond London and the South East. Capital value growth made offices the best-performing sector over the year, fractionally ahead of industrial property.
- In contrast to the early part of 2013, the best returns in Q4 were seen in higher yielding stock, as investors with asset management plays outperformed holders of prime assets.

Fall in prime yields by sub-sector over 2013, selected (%)



Source: Deloitte Real Estate

... as all sectors see lower yields

- All major parts of the commercial property spectrum have seen prime yields fall during last year. Half of the subsectors – including almost all retail types – have seen a 25bps shift. The larger movements have been seen in a range of sectors, including offices to the west of London and prime retail warehouses, as investors’ interest has spread.
- London Midtown offices have seen the largest change, with yields falling 100bps over the year, reflecting the growing attraction for tenants of this increasingly accessible area close to the City.

UK commercial property

Performance outlook improves as occupational drivers gather steam

All property capital growth, month-on-month %

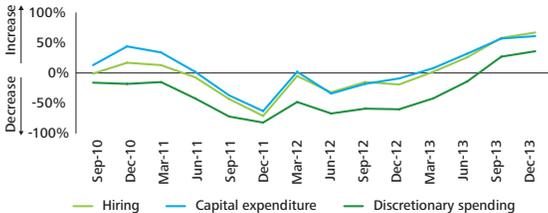


Source: IPD

Capital growth picking up ...

- 60% of commercial investment properties saw positive capital growth during Q4 2013, according to IPD. Values are now benefitting both from modest rental growth as well as yield movement.
- December saw monthly All Property IPD capital value growth of over 1.5%, the highest in almost four years, as the initial yield fell 15bps to 6.04%. Rental growth was 0.25% over the month, the fifth consecutive month of positive values.

Outlook for capital expenditure, hiring and discretionary spending



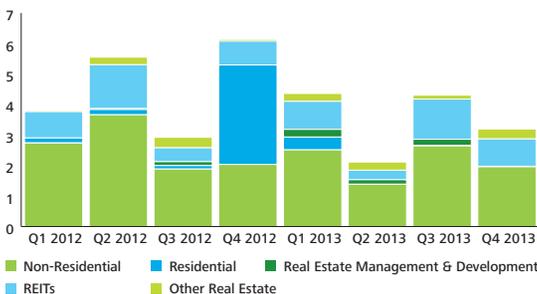
Net % of CFOs who expect UK corporates' capital expenditure, hiring and discretionary spending to increase over the next 12 months

Source: Deloitte CFO Survey, Q4 2013

... as occupier demand prospects rise

- Sustained capital growth will be dependent on further rental growth, and large firms are increasingly positive about their plans to take on additional staff and to increase capital spending, according to Deloitte's latest *CFO Survey*. Increasing demand from tenants is consistent with IPD office rental growth at its strongest monthly level since 2007.
- Our *Winter London Office Crane Survey* pointed to the re-emergence of demand from large occupiers and the prospect of further pre-let deals to secure space. We currently calculate that 41% of central London office space under construction has already been let.

UK real estate M&A deal values
Disclosed deal values (£bn)



Source: Deloitte M&A Tracker

M&A activity expected to increase

- We expect increasing capital inflows from global investors, coupled with further public sector disposals, to result in an increase in real estate M&A activity this year, from the £14bn of deals completed in 2013.
- In the wider economy, volumes of activity are also expected to rise, as companies look for growth amid the increasingly positive outlook.

UK commercial property

Retail and construction remain sluggish

Vacancy (finally) starts to fall on the high street in 2014

E-fulfilment battle will drive a sharp increase in retailers' demand for urban logistics in 2014

Retail's mixed messages

- Although consumer confidence faltered at the end of 2013 according to Deloitte's *Consumer Tracker*, the broader picture is not all negative, with intentions to spend on big-ticket items improving and recent retail sales figures producing surprisingly strong results.
- We predict that vacancy levels on high streets will start to fall during this year, partly due to improving consumer confidence and partly through the evolving role that local retail will play in the logistics infrastructure supporting the growing demand for click-and-collect services.

Tender price index annual change %



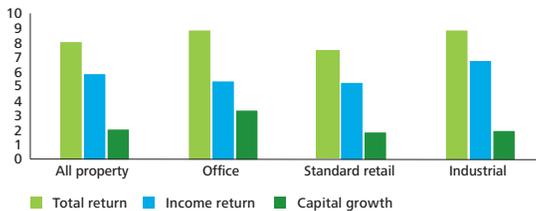
Source: BCIS

Construction costs set to rise

- Construction output remains subdued according to the official Q4 GDP first estimate, with the commercial sector lagging behind residential. However, we expect new orders to pick up during the early part of 2014 in line with the improving economy, and this will bring a sharp increase in construction costs.
- Jobs priced in the last few months may be at risk from this uplift, particularly from rising specialist contractor rates.

Total return outlook by sector

IPF forecast annualised total returns 2013-17 %



Source: IPF Consensus Forecasts Q4 2013

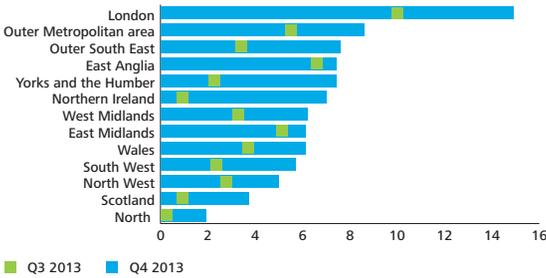
Offices share the best outlook with industrial

- According to IPF's Consensus Forecasts, the office sector is expected to produce the strongest capital value growth among the main sectors over the medium term, at 3.5% annualised to 2017. Elsewhere, capital growth is barely forecast to exceed 2.0% per annum. This brings offices level with industrial property, which is supported by superior income returns, and both are forecast to deliver returns of 9.0% per annum over this period.
- These are lower levels of performance than those achieved last year; forecasters are not getting carried away with their predictions. However, we do expect the next set of consensus forecasts to be stronger.

UK residential property

Stronger demand and more new supply

Annual house price growth by region %



Source: Nationwide

House prices up across the UK ...

- London house prices have pulled away from the rest of the country with annual growth of almost 15% to the end of 2013, but all regions saw prices increase in Q4 and all but four achieved annual rises of 6% or better.
- An improving labour market and prospects of real increases in incomes has led many forecasters to predict further rises this year.

Residential demand indicators



Source: RICS

... with demand increasing from first-time buyers

- The number of mortgages approved in the final quarter of 2013 was the highest since the start of 2008, at 210,000. Among these, first-time buyer numbers were increasing at a faster rate than house movers.
- Survey data from RICS in December put sales-per-surveyor rates at the highest since March 2008, while new-buyer interest remained strong.

Volume of private residential construction output, indexed

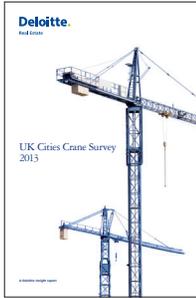


Source: ONS

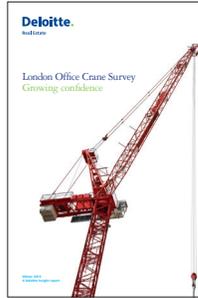
New home totals at six-year high

- The number of new homes registered during 2013 was 28% higher than in 2012, according to the NHBC, and the highest total since 2007. Of the 134,000 new homes, 97,000 were in the private sector, however the volume of public sector units showed a larger annual increase
- House builders did report a year-end dip in reservations, but incentives continue to fall and new house prices have seen further growth.

Recent research



UK Cities Crane Survey 2013



London Office Crane Survey Winter 2013



Student Housing 2013



Real estate predictions 2014



Globaltown: Winning London's crucial battle for talent



Businesses Leading Britain 2013

Forthcoming research	
• Deloitte Consumer Review	March 2014
• CFO Survey Q1	April 2014
• Self Storage Association annual survey	May 2014
• London Office Crane Survey	May 2014

www.deloitterealestate.co.uk/Research.aspx

New London App

The New London app is an interactive map highlighting development activity across the capital. The app monitors development from proposed projects right through to recently completed schemes.

Since its launch almost 12 months ago the number of schemes featured has doubled and there is over 100 million sq ft of property recorded.

We are actively encouraging key clients and developers to download the app and contribute their schemes to ensure it remains a cutting edge resource. It has been downloaded in over 25 countries with the US the most active country to download the app outside the UK.

Look out for a number of changes to the usability of the app over the coming months.

The app is available for free from the App Store.



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Designed and produced by The Creative Studio at Deloitte, London. 33039A