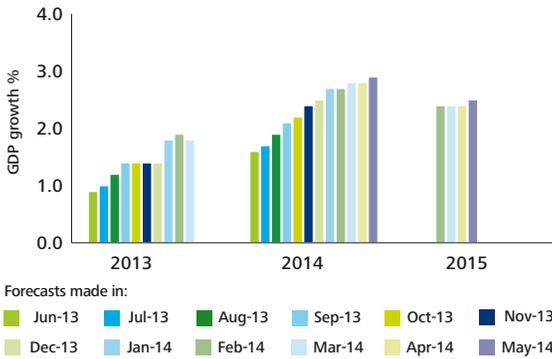




# The economy

## GDP growth expectations rise further

Changing consensus forecasts for GDP growth

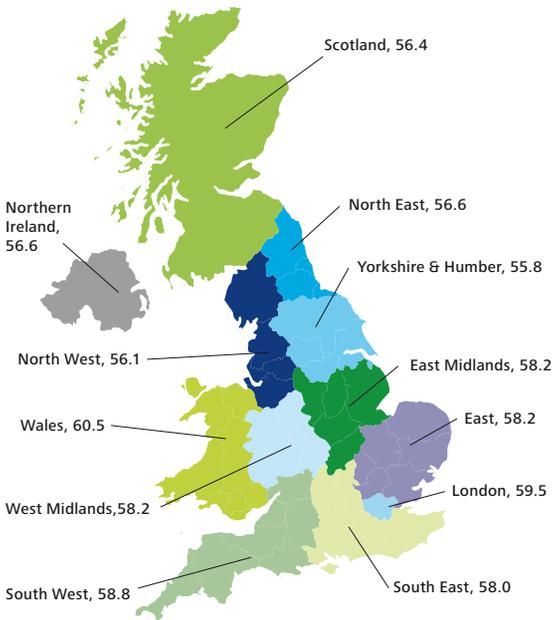


Source: HM Treasury consensus forecasts

### Expansion broadening out

- The economy continued to expand at an annual rate of 3.1% in the first quarter of the year and the consensus view for GDP growth over 2014 has now reached 2.9%. More encouraging still is the increased contribution coming from business investment as consumer spending loses some momentum.
- Although inflation is well below the Bank of England’s target, rapid falls in unemployment are increasing pressure to raise the base rate.

PMI Business Activity Index, March 2014



Source: Markit

### Credit availability improving, but mainly for large firms

- Recent survey results for both large and smaller firms suggest expansion is uppermost in directors’ minds. Deloitte’s latest quarterly CFO Survey shows a record 71% of corporates in favour of taking greater risk onto their balance sheets.
- The availability of credit continues to improve, although it is less of an issue for large firms than for SMEs. The Bank of England’s Q1 Credit Conditions Survey points to a weaker increase in availability of credit for small businesses. However the survey reports that the availability of lending to the commercial real estate sector rose over Q1 and is expected to grow further.

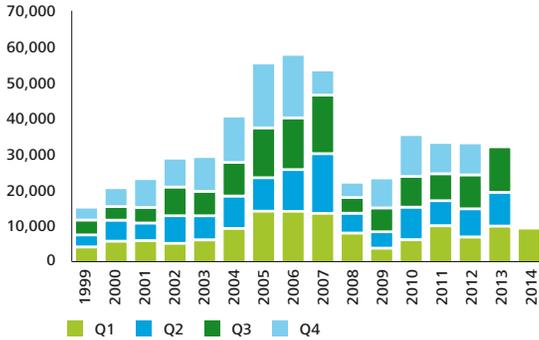
### Activity grows faster in Southern regions

- Regional economic performance is also improving. PMI figures measuring private sector firms’ workloads show that activity is increasing (index above 50) in all regions. However, it is clear that regions in the southern half of the country are enjoying faster growth, and this is expected to continue as these regions contain a greater share of the job-creating sectors in financial and business services.

# UK commercial property

## Investor demand for property remains firm

Property investment by quarter (£ million)

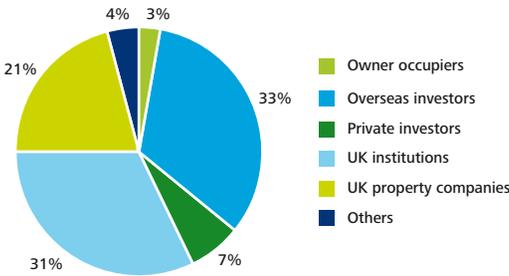


Source: Property Data

### Appetite for investment still strong

- Over the first four months of the year, £12.9bn of investment purchases were recorded, fractionally ahead of the same period last year. Cash flows from domestic savers into property funds continue to increase steadily, reaching almost £300m in February according to the Investment Managers Association, and we see little let up in demand from across the range of investors over the rest of the year.
- Auction sales have an increasingly important role in the market; there has been a visible shift to larger lot sizes and the sold rate is up over 5% on last year.

Share of investment by investor type Q1 2014



Source: Property Data

### UK funds eager to build exposure

- UK institutional funds have been notable in raising their purchasing activity over the last two quarters, and, along with UK property companies, accounted for 53% of purchases in Q1 against 43% for 2013 as a whole.
- Overseas investors, particularly those from the Middle East, have been more subdued this year, but US buyers have been significantly more active in the market.

Fall in prime yields, year to date % (selected)



Source: Deloitte Real Estate

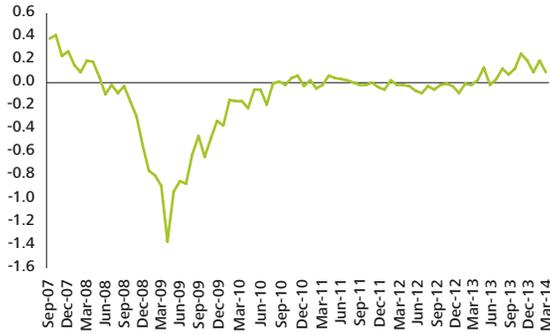
### Yields remain under downward pressure

- The weight of this demand has meant that prime yields have fallen, by a further 50bps since the start of the year for some prime office sub-markets as well as for distribution warehouses and industrial estates. Although now at a low level, we expect to see further small falls this year, particularly in the regional markets.
- Shopping centres have been in high demand, accounting for the three largest single-asset deals in Q1. In contrast to the previous quarter which saw two £1.7bn central London office purchases, the largest office deal in Q1 was Hines' £245m purchase of 60 Holborn Viaduct in central London.

# UK commercial property

## Rental growth beginning to take hold

All property rental value growth, month-on-month, %



Source: IPD

### Rental growth to support total returns

- Rental growth will start to play a greater role in total returns as capital growth from yield compression slows. Over the first three months of the year, IPD All Property rental value growth reached 0.7% quarter on quarter, its highest level since the final quarter of 2007.

Rental value growth, year to April (%)

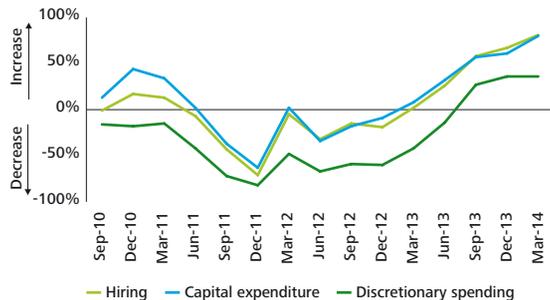


Source: IPD

### Central London offices out in front

- Over the last twelve months, the central London office markets have produced rental growth head and shoulders above all other parts of the market. Indeed a large part of the retail sector has seen falls in rental values over the period. However, even here, figures are showing a gradual improvement.
- Occupier demand for central London office space rose to its highest level since the financial crisis last year, with a significant improvement in demand for Grade A space. The TMT sector accounted for 34% of lettings last year, with professional services taking 18%.

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, Q1 2014

### Hiring expectations lifted further

- The Q1 CFO Survey confirmed the continuing growth in prospects among corporates, with hiring intentions over the next year reaching the highest level in the survey's history.
- This should translate into further demand for additional office space. Over the medium term, the financial and business services sector is expected to provide a large share of new jobs created, and London in particular will benefit from this.

# UK commercial property

## Retail sector provides some encouragement



Source: Deloitte

### High street message improving

- The office sector does not have a monopoly on good news. Recent research by Deloitte suggests that the health of the high street may not be in as critical a condition as widely claimed. An analysis of the reoccupation rates of units formerly held by retailers that had gone into administration shows that those on high streets have fared better than those in shopping centres or on retail parks.
- Furthermore a significant proportion of reoccupied space on the high street has been taken by discount stores and supermarkets seeking to increase their presence in the convenience sector, and not just by bookmakers and charity shops.

### New logistics model



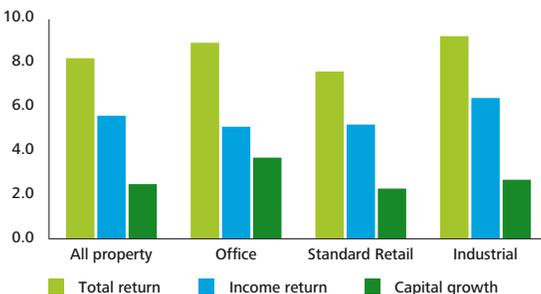
Source: Deloitte

### Changing demands on distribution

- Our new research paper, *The Shed of the Future*, discusses the impact of e-commerce on the retail logistics network. Higher customer expectations for stock availability, delivery times and collection options are forcing retailers to reassess their optimum distribution arrangements.
- As a consequence we see additional demand for mega sheds from some operators, heavy competition for urban warehousing, and changes in the type of functions warehouses are expected to accommodate.

### Total return outlook by sector

IPF consensus forecasts: annualised total returns 2014-18 (%)



Source: IPF Consensus Forecasts Q2 2014

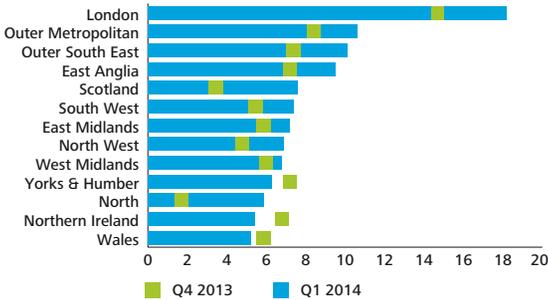
### Industrials in favour over the medium term

- Returns continue to improve: the average prediction for all property total returns in the May IPF Consensus Forecasts report was 13.7%, up from 12.1% in February.
- Supported by a superior income return element, the industrial sector is expected to produce the strongest total returns over the next five years, at 9.1% per annum according to the latest IPF consensus forecasts.
- Capital growth is expected to be highest in the office sector, bringing total returns to 8.6% per annum.

# UK residential property

## Signs of the market starting to ease

Annual house price growth by region %

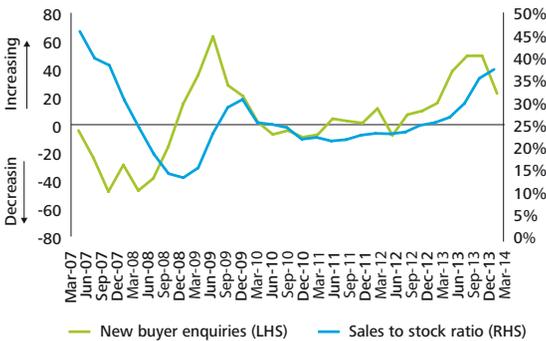


Source: Nationwide

### House price rises continue

- Most regions saw a further acceleration in house prices in Q1, with notable pick-ups recorded in Scotland and the North. London has moved further away from other areas of the county, with annual house price growth of over 18% in Q1.
- Unlike in Q4, however, there are a small number of regions where price growth has fallen back.

Demand indicators

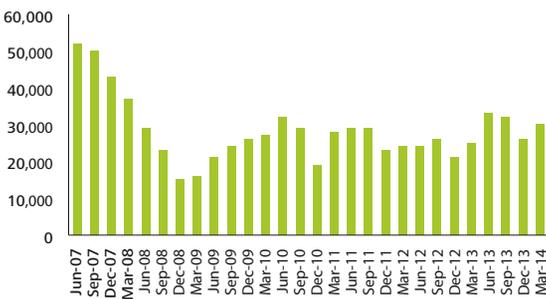


Source: RICS

### Pace of demand growth slows

- The latest data from RICS shows that the level of enquires from new buyers is growing at a much slower rate than during the second half of last year.
- At the same time, the number of properties available to buy remains low, keeping upward pressure on house prices.
- The latest data from the British Bankers Association shows that the number of new mortgages taken out in April was 42,000, a steady fall from the recent peak of 48,000 in January. However the volume remains higher than for the same period last year.
- Market interest rates suggest new loans will become gradually more expensive, while regulations introduced in April will make them more onerous to acquire.

New homes started



Source: NHBC

### Construction volumes show little sign of taking off

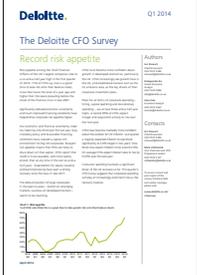
- Improvements in the number of new homes being built have been modest and remain well below the volume in 2007.
- Demand for new houses remains firm, buoyed up by the Help to Buy scheme, but house builders are citing increasing costs – of labour and materials – as well as the lengthy planning process for holding back construction volumes.

# Recent research

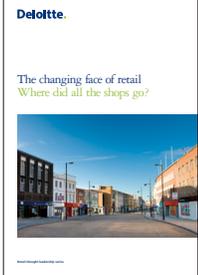
**Recent publications**



**Deloitte.**  
The Deloitte Consumer Review  
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**Deloitte.** Q1 2014  
The Deloitte CFO Survey  
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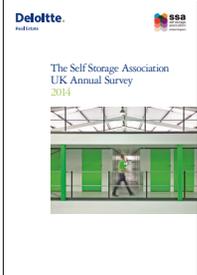
**Deloitte.**  
The changing face of retail  
Where did all the shops go?



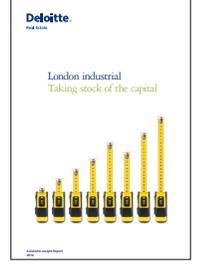
**Deloitte.**  
UK real estate predictions 2014  
Expansion mode



**Deloitte.**  
The Deloitte  
**M&A Index**  
Growth is back on the corporate agenda



**Deloitte.** SSA  
The Self Storage Association  
UK Annual Survey  
2014



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London industrial  
Taking stock of the capital



**Deloitte.** MID EAST  
London Office Crane Survey  
Gearing up for the next phase of construction

**Consumer Review:  
Digital predictions 2014**

**CFO Survey Q1 2014**

**The changing face of retail:  
Where did all the shops go?**

**Real Estate  
Predictions 2014**

**M&A Index Q2 2014**

**The Self Storage Association  
UK Annual Survey 2014**

**London Industrial:  
Taking stock of the capital**

**London Office Crane Survey  
Summer 2014**

## London Office Crane Survey

### Gearing up for the next phase of construction

[www.deloitte.co.uk/cranesurvey](http://www.deloitte.co.uk/cranesurvey)



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Largest available building currently under construction:

**Aldgate Tower, City**  
317,000 sq ft

Largest building currently under construction:

**5 Broadgate, City**  
700,000 sq ft

**Total volume**  
Million sq ft

Area	Volume (Million sq ft)
<b>Total</b>	<b>9.2</b>
City	4.7
West End	1.6
Midtown	1.3
Southbank	0.3
King's Cross	0.7
Docklands	0.5
Paddington	0

Office construction is **down 5%** over the past six months to **9.2 million sq ft**

This survey has recorded **15 new starts**; lowest number since 2010

There was just **one new construction start** in the City

The West End and Midtown are the only markets to see a **rise in construction levels**

Despite the delivery of new space but there is a very limited pipeline thereafter

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Designed and produced by The Creative Studio at Deloitte, London. 35712A