

# MARKET

## Commentary

### Occupier Sector

In its broadest sense, the area in which Glenny operate, can best be defined as the north, north east and south east M25 quadrants.

Over the past 12 months, without exception, we have seen rental levels and owner occupier freehold capital values at worse remain static and in most regions increase for prime stock across both the office and industrial sectors.

Whilst there has been much talk of the Olympic effect, which has undeniably created an imbalance between supply and demand in east London, we have not, as yet, experienced the huge ripple effect expected in the outlying M25 regions; we believe the activity in these areas to date has been the product of a healthy supply and demand equation, which has in turn had a positive effect on rental values (from a landlords perspective).

We do however expect this position to change over the next six years, leading up to the Olympics as a result of both an upsurge in inquiries from "Cottage Industries" wishing to service the

construction process and also when the second phase of CPO's take effect in 2009, in order to facilitate the wider land assembly within the non core Olympic area.

Generally freehold enquiries continue to outstrip leasehold, particularly in the small unit industrial and office sectors, largely as a result of the on-going low interest rate environment and strong private pension (SIPP) markets. Notwithstanding this, we have witnessed an improvement in demand for leasehold product of late, reducing the ratio of freehold to leasehold requirements from approximately 4:1 this time last year to circa 3:1 currently.

In terms of sector analysis, typically 80% of all applicant enquiries received to our four regional offices are for industrial/warehouse accommodation with the remainder being predominately office driven.

### Investment Sector

The almost insatiable demand for commercial property investment stock from debt financed private investors, through to sophisticated institutional funds

has had a positive effect on capital values throughout the UK. However, whereas elsewhere capital growth has largely been attributable to yield compression, there are very real and genuine prospects of above average rental growth within the Thames Gateway region generally, and in particular east London, as a result of the loss of existing employment land to not only facilitate the Olympic Park, but also to higher value uses, such as residential and retail.

As a consequence, prime yields have hardened considerably, with the average net initial yield for prime stock based on our market intelligence across the office and industrial sectors now well below 6% in east London and just above 6% in the outlying M25 regions.

### Development Sector

Consistent with demand, the majority of development stock throughout our region tends to be industrial biased with much being targeted at the SME markets at one end of the spectrum and the Regional Distribution Centre/Big Box warehouse market at the other. Demand for small unit office

product remains healthy, albeit this sector tends to be far more price and location sensitive in comparison to industrials.

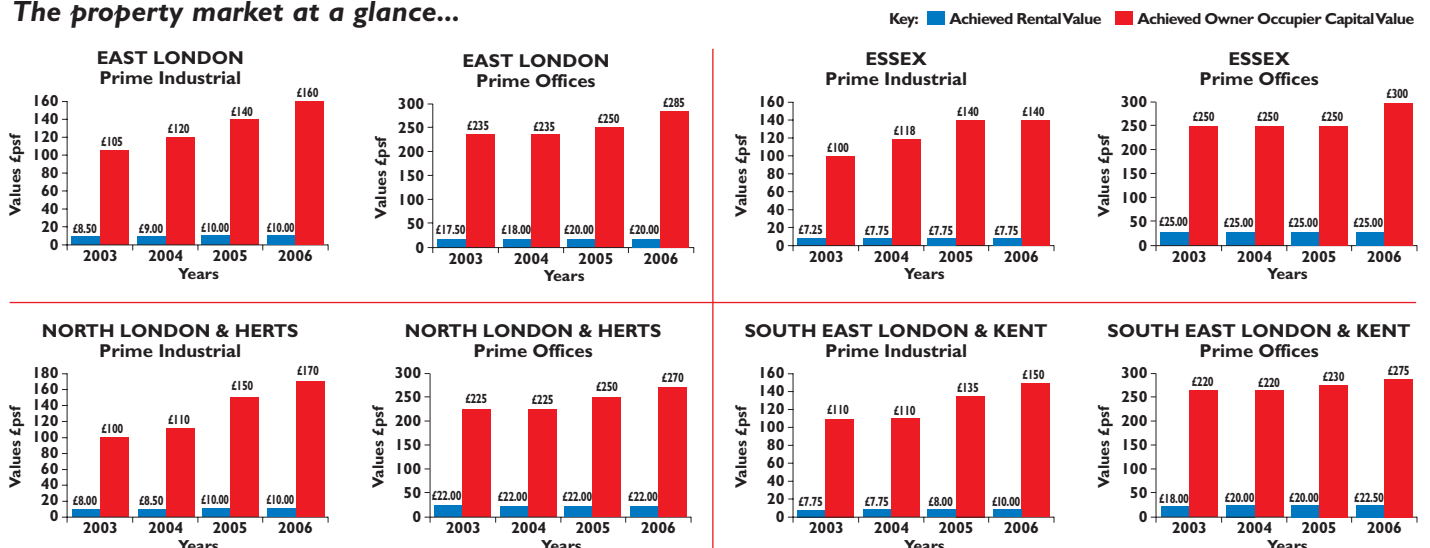
As competition for prime employment sites intensifies, developers are increasingly forced to maximise site densities, particularly within Greater London, in order to secure a position. Margins continue to be further eroded as a result of increased sustainability requirements in the building process enforced by Central Government.

Whilst the HQ office and Regional Distribution Centre warehouse sectors remain primarily pre-let driven, the small unit market is largely speculative.

On a cautionary note, The Bank of England has voiced concern over the level of commercial lending, which is now higher as a percentage of total borrowing than it was at the height of the late 1980's development boom.

Notwithstanding this, it is estimated that less than 15% of the current total amount of outstanding debt is development finance and only 7% is on a purely speculative basis.

### The property market at a glance...



For further information please contact John Bell on 020 8591 6671.