

January 2012

Commentary

“The property market overview”

Welcome to the January edition of our commentary.

This article provides an overview of economic factors affecting the property market, together with our observations on the commercial property sector in Essex and London over the last six months.

The last six months have been mixed, with the general view amongst our fee earners being July, August and September were stronger than anticipated, with a good level of demand for most property types. A steady number of valuation instructions were received in the professional team, despite the usual slowdown in the summer, when people take holidays. October, November and December were slower, with a reduction in the number of decent enquiries for all property types. It is difficult to blame this change entirely on the recent economic troubles in the Eurozone, but the two do seem to be linked; the general sentiment that the period of downturn in the UK has just been extended, has negatively affected individuals and businesses in respect of their outlook.



Academy Place Brentwood

Economic Activity

The UK's Gross Domestic Product (GDP) grew again for the third quarter in a row (in Q3), at 0.5%, and as such, 8 out of the last 9 quarters have shown positive growth, albeit in only small amounts. GDP is a measure of a country's economic activity, namely of all the services and goods produced in a year. 2011 saw only positive growth for the UK. Indices for both services and manufacturing increased in September, but the services sector fared poorly again in October, after weak results in August. The services sector accounts for approximately two thirds of our economy and some analysts are starting to report the recent data shows a shrinking of our economy. Backlogs of work in the manufacturing sector are said to have reduced at their fastest pace since late 2009. Some businesses have recently shown a sharp slowing in the growth of manufacturing export orders, whilst domestic orders have also fallen during the course of 2011. The Organisation for Economic Co-Operation and Development announced in November their prediction that the UK economy shall shortly dip back into recession, leaving us in no doubt that 2012 is going to be another difficult year.

Availability of Credit

The respondents to the August issue of the Bank of England's Credit Conditions Survey reported that increased levels of secured credit were available to households and small businesses and that there was no change in the amount of credit for large

and medium-sized businesses. This is good news to those in the property

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sector and providing lending policy for the main UK banks (who make up the majority of respondents) remains the same for commercial property; activity should stay at a constant, assuming demand and availability in the market remain steady. In our experience, Developers may not agree with the findings of this survey, with many reporting to us that their options for financial support on schemes have been and shall continue to be constrained.

Inflation

The Consumer Prices Index rose in September, as did the Retail Prices Index, the former being blamed primarily on the increased cost of energy. The same indices fell slightly in October and again in November. These indices are inflation indicators and have been on the move in an upward direction since the second quarter in 2009, although more recently, both indices showed inflation falling since October 2011 and the Bank of England anticipates this reducing in the first part of 2012, as the effects of 2011's VAT increase and

higher oil prices drop out of the twelve month comparison. How much inflation reduces in 2012 shall depend largely on oil prices, profitability of UK based businesses, product pricing and wage changes.

Jobs

There has been an increase in the number of jobs lost in the public sector, whilst the private sector has seen an increase in employment levels. Private sector employment level increases are contrary to a reduction in productivity levels in the same sector. This is thought to be as a result of either firms holding on to skilled staff in the hope that the economic recovery is in sight, or because of limited access to credit for small firms combined with lenders not pressurising struggling businesses. It is possible that this may be inhibiting the reallocation of resources to fast growing and start-up companies who are the most likely to employ new staff.

Monetary Policy

The Bank of England Interest Rate has remained the same for some considerable time at 0.5%, after it tumbled from 5.0% in October 2008 down to 0.5% in only a matter of five months. It is likely to remain at a low level, certainly at below 1% for the next year, until either inflation or steady growth prove it no longer necessary to hold it at this historically low level. The MPC's October increase in quantitative easing by £75 billion was the last of 2011, but more is likely during the course of 2012.

Our observations

We carried out a mini in-house survey of our fee earners in both agency and professional teams and set out our findings as follows:

All of our agents report that occupier demand for office and retail premises has increased over the last six months, whilst some thought that demand for industrial property had reduced. Although in general this shows an increase in demand for property, our agents did report that their rental and capital value expectations had gone down over the same period. The incentives landlord's are prepared to make available to tenants taking new leases, such as rent free periods, increased in the main, with up to 20% of the term of the lease becoming an ever more common sight. Tenants are regularly requesting and obtaining shorter term agreements, often with break clauses as well. The reason for this is that start-up businesses do not

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want to commit to long term leases when they are unsure how their business will perform. Another reason is that established businesses that are finding times difficult are holding off purchasing their own property until they become more profitable and the availability of bank funding increases. The agents also reported that they have a larger number of properties available, proving there is no shortage of stock. Investment enquiries increased for industrial and retail properties, but reduced for offices. Smaller freehold properties in London, suitable for owner occupiers, remain scarce, and demand and prices have increased as a result.

Professional team members reported that investment/owner occupier yields had shown little strengthening over the last six months, with most being of the view that they had not altered, with the remaining few advising they thought yields had weakened. The same 'no change' was reported in respect of rental and capital values for all property types. The team reported a slight increase in development work involvement, with a greater number of valuations of new build and conversion projects compared to the previous six months. November and December saw a real flurry of activity in London in

perception that 2012 shall be another difficult one is shared across all members of the team.

We, like most of our clients, have become accustomed to the difficulties in the economy and although the recovery is likely to be drawn out, there are many opportunities and activity. We have been asked to provide advice to make sense of the confusing data property buyers and owners are faced with. We have analysed market trends and property transactions and continue to provide sound advice to owners, occupiers and developers. We feel able



respect of overseas investment, and remains a different market altogether. The uncertainty in Europe has certainly not harmed residential investment values in good postcode areas; some agents have reported to us an increase in value of up to 10% since summer alone. The Eurozone troubles are causing some to see London as a 'safe haven' for their money.

The trend across the data gathered is that rental and capital values have changed little, but only on a headline basis; incentives to tenants to take new leases are becoming more generous, which if analysed into the deal, actually shows a reduction in rental value. The

to offer effective solutions, to mitigate the worst that the economy has to throw at us in 2012.

Chris Tidder chris.tidder@kemsley.com

Head of Professional Team

Steve Metcalfe
steve.metcalfe@kemsley.com

Head of Agency Team

Colin Herman
colin.herman@kemsley.com

Head of Property Management Team

Tom Kinloch
tom.kinloch@kemsley.com

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VALUATIONS
COMMERCIAL AGENCY
INVESTMENT
LANDLORD & TENANT
PROPERTY MANAGEMENT

BASILDON

The Capricorn Centre Cranes Farm Road Basildon Essex SS14 3JA
Tel: 01268 532425 Fax: 01268 532401 Email: property@kemsley.com

CHELMSFORD

113 New London Road Chelmsford Essex CM2 0QT
Tel: 01245 358988 Fax: 01245 356758 Email: property@kemsley.com

LONDON

61 Brushfield Street London E1 6AA
Tel: 020 7422 6350 Fax: 020 7422 6351 Email: property@kemsley.com

ROMFORD

8 Station Square Gidea Park Romford Essex RM2 6AT
Tel: 01708 766733 Fax: 01708 741633 Email: property@kemsley.com