

Property Data Report

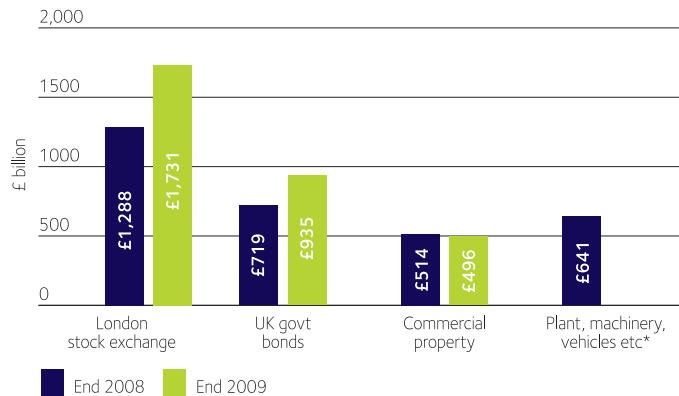


Introduction

This document sets out some key facts about commercial property, a sector which makes up a major part of the UK economy in its own right, as well as providing a platform for virtually all of the country's other major industries. It is a sector which plays a crucial role by providing places in which people can work, shop and enjoy leisure activities. Larger than the banking, leisure, communications and transport sectors, commercial property is also a significant investment asset for the pensions industry and so contributes to the financing of our retirement.

This document has been produced by the British Council of Shopping Centres, the British Council for Offices, the British Property Federation, the Investment Property Forum and the Royal Institution of Chartered Surveyors. All five bodies are members of the Property Industry Alliance, which seeks to achieve a more co-ordinated and effective approach from leading property bodies on policy, research and best practice issues.

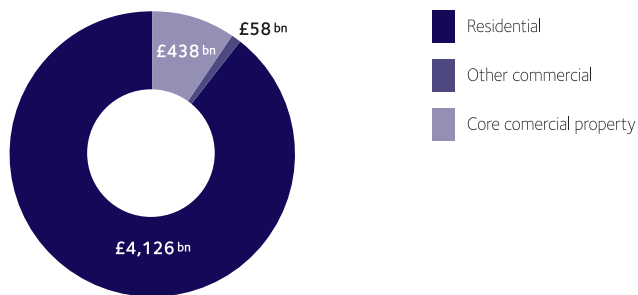
1 Commercial property's value in 2009 declined below £500 billion as prices fell by around 3.5%. It remains an important factor of production, slightly less than the country's stock of plant, machinery and vehicles.



* end-2008 only

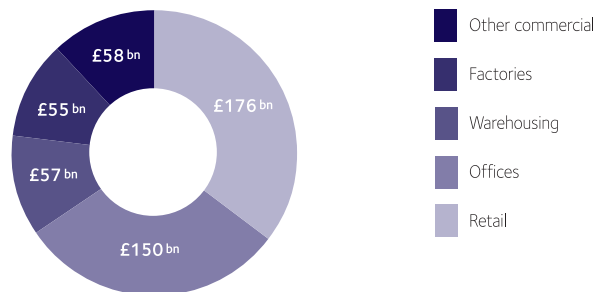
Its value is about half that of government bonds and a third of UK equities. The total value of bonds has risen as the government has issued more to finance its budget deficit, while equities experienced substantial price increases in 2009.

2 "Core" commercial, comprising retail, office and industrial property, dominates. The smaller "other commercial property sector" includes hotels, restaurants and pubs, car showrooms and petrol stations, cinemas and theatres etc.



In being 8 times larger, residential property overshadows commercial. However, residential property also far outweighs every other asset class in the UK.

3 Retail, at £176 billion, is the largest commercial sector. Its share has been growing over time, particularly with the shift towards out-of-town retailing.



Offices are the second largest sector. Hotels and catering are the largest part of the diverse "other" commercial property sector.

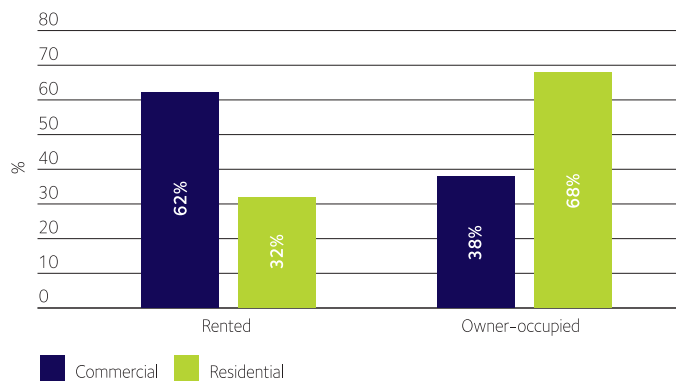
4 Retail is split equally between town centres and out-of-town. Out-of-town accounted for less than a fifth of retail in 1993.

Composition by capital value, 2009 (as measured by IPD)

Segment	% of total	Segment	% of total
Central London shops	2	All town centre retail	26
Rest South East shops	3	All out-of-town retail	26
Rest UK shops	5	Central London offices	17
In-town shopping centres	14	All central London	19
Out-of-town shopping centres	5		
Retail warehouses and parks	19		
Other retail	5		
City of London offices	6		
London West End offices	11		
Rest South East offices	9		
Rest UK offices	5		
London and South East industrials	9		
Rest UK industrials	7		
Total	100		

Central London accounts for half the office market's value and a fifth of all commercial property, although its share has been declining.

5 Around two-thirds of commercial property is rented, the converse of residential where the proportion is only a third.



The proportion of commercial property which is rented is growing. Many businesses have preferred not to commit the capital and management time required of owner-occupation. More owner-occupiers took advantage of high prices in the mid-2000s to participate in "sale and leaseback" deals.

6 The average length of a new lease continues to shorten and in 2008 it fell to 5.9 years compared to 8.7 years in 1999.

Average length of new leases (years)*

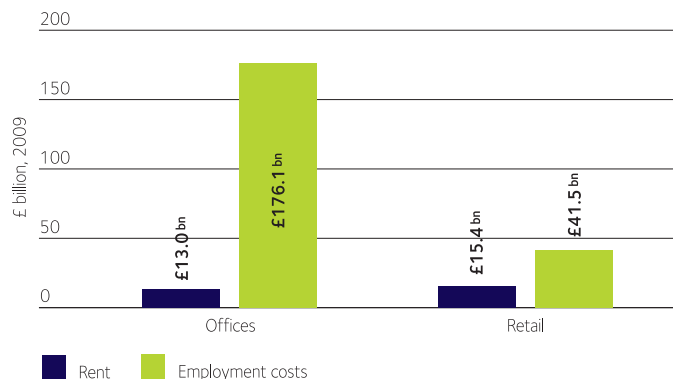
in 1999	8.7
in 2008	5.9
SMEs**	5.4
Large companies**	8.7
Retail	6.5
Offices	5.4
Industrials	4.6
Proportion of new leases 1-5 years long	66%
Proportion of new leases with break clauses	28%
Average rent free period (months)	6.2

* Including exceptional licences and short leases and the effect of break clauses.

** 2007

Smaller tenants have much shorter leases. Many tenants also benefit from rent-free periods at the beginning of a lease. Retail warehouses – where demand from tenants until recently was very strong – have the longest leases, and industrials the shortest.

7 Office rents, at around £13 billion, are very low (7%) relative to the staff costs of occupiers. For retailers, rental costs of £15.4 billion are about two-fifths of staff costs.



The rental costs borne by retailers, however, represent a small fraction (about 5%) of their turnover.

8 Rents fell in 2009 while wages increased. Office rents are now lower than 10 years ago and retail rents have not kept pace with inflation. The wages of shop and office workers have increased at a much faster rate and continued to rise in 2009.



The rise in the cost of utilities over the last 10 years has far outstripped inflation in rents, wages and prices.

- 9 UK institutions – responsible for personal long term savings and pension plans – are still the biggest owners of commercial investment property. They own about a quarter of the total, although their share is declining.

Direct ownership of UK invested commercial property, 2009

Type of owner	£bn	% Change 2003-09	% of total
UK institutions (insurance companies and pension funds)	67	-18	23
Overseas investors	63	70	22
Collective investment schemes	50	67	18
UK REITs and listed property companies	38	7	13
UK unlisted property companies	31	-17	11
Private investors	15	89	5
Traditional estates / charities	11	-12	4
Other	10	-19	3
TOTAL	285	12	100

Overseas investors are growing rapidly, as property investment strategies become more global. They are now the 2nd largest owner and, following the trend in the stock market, are poised to overtake UK institutions to become the largest.

Ownership by collective investment schemes (managed funds, property unit trusts, limited partnerships etc) fell in 2009 although such schemes have been substantial investors over the last decade. Their growth reflects increased interest in the asset class from smaller institutional and retail (individual) investors, overseas institutions, and a shift in personal savings habits towards unit trusts.

Nearly half UK property is owned for the purpose of providing returns to UK pension funds and other personal savings schemes, especially when account is taken of the use of REITs and listed property companies in such schemes.

- 10 UK commercial property accounts for over 5% of the £2¼ trillion invested by insurance company and pension funds. Its share has declined as property prices have fallen, as the stock market rose in 2009, and as big institutions dis-invested from commercial property in the 2nd half of the 2000s.

Insurance company and pension fund exposures to property in relation to total assets, 2009

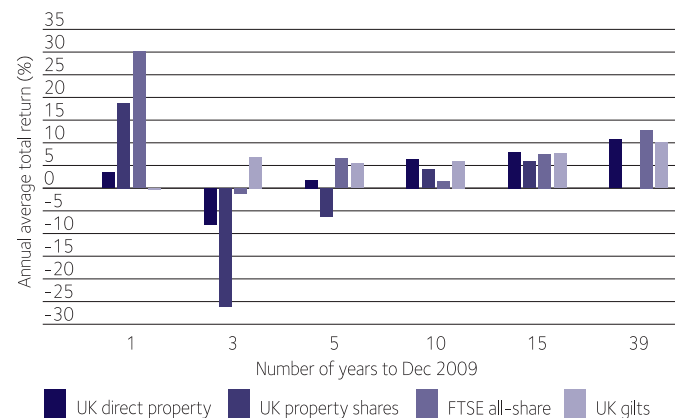
	£bn	% of total assets
Total assets (equities, bonds, property, etc.)	2261	100%
of which:		
Directly owned UK property	67	3%
Investments in collective investment schemes	36	2%
Total property	103	5%
Property company shares	6	0.3%

A 10% fall in commercial property values would wipe around £10 billion off the value of insurance company and pension funds.

Most large pension funds invest in property but only a small proportion of the smaller ones do so. However, investment amongst the smaller funds has grown as investing in property has become easier.

In line with their recent proliferation, collective investment schemes now account for a third of institutions' investment in commercial property.

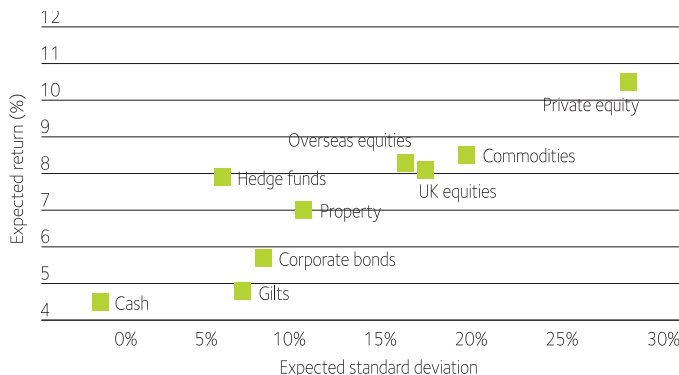
- 11 Over the longer term, commercial property's performance sits between gilts and equities – almost 11% per annum since IPD's records began in 1971.



Its performance, however, has varied, being relatively poor over the last 5 years and comparatively strong since the mid-1990s.

Property company shares have been more volatile. Poor performances in 2007 and 2008 undermined what had previously been a good track record.

- 12 Investors believe that commercial property's risk in the future will, on average, be less than equities but greater than gilts and will deliver returns commensurate with this risk. Almost all of this return is expected to be rental income.



Investors are attracted to commercial property because of its superior return to bonds and the diversification it provides for portfolios.

Furthermore, property's unrivalled income return is highly valued by insurance company and pension funds.

13 Commercial property is a very intensive activity and significant part of the UK's economy. Close to 1 million are employed in commercial property activities. It contributed about £39 billion to the UK's GDP in 2009, a comparable amount to the country's engineering industry.

Employment in commercial property, 2009	'000
Construction, development, and care and management of buildings	695
Letting, buying and selling and financing of property	132
Fund, investment and asset management	15
TOTAL EMPLOYMENT	842
GROSS VALUE ADDED (£bn)	39
Commercial property GVA as percentage of UK GVA	3.1

Most activity is involved with the construction and care of buildings. The letting and buying and selling of property is also a sizeable activity. Investment and fund management is a small but disproportionately valuable part of the industry – the largest in Europe. Other activities, e.g. residential, will further increase property's contribution.

14 The UK commercial property sector on average adds about 82 million square feet of new space every year. This has an investment value of around £14 billion – equivalent to over 1% of the UK's GDP.



Most of the space added is in the industrial property sector (which includes distribution and warehousing in addition to manufacturing). The amount of retail and office space completed each year averages around 18 million square feet. While more industrial space is built, the space added in the retail and office sectors is of greater value.

Definitions

Commercial property is primarily made up of the core sectors of retail, office and industrial (warehousing and factories) which dominate investors' portfolios. Cinemas and leisure parks, hotels, pubs and restaurants, and garages and petrol stations are also seen as commercial property. Commercial property activity covers those whose main business is the construction, development, design, and care and management of buildings, the fund, investment and asset management of investment property, and transacting (e.g. investment and letting agency). The contributions made to commercial property by the legal and banking sectors are also included.

Sources

- 1 The property estimate is a Paul Mitchell Real Estate Consultancy update of IPF report *The Size and Structure of the UK Property Market*; National Statistics, Debt Management Office, London Stock Exchange.
- 2 Paul Mitchell Real Estate Consultancy update of IPF report *The Size and Structure of the UK Property Market*; residential property is based on the 2008 estimate from National Statistics *Blue Book*, updated to 2009 by Paul Mitchell Real Estate Consultancy.
- 3 Paul Mitchell Real Estate Consultancy update of IPF report *The Size and Structure of the UK Property Market*.
- 4 Investment Property Databank Ltd © 2010.
- 5 Paul Mitchell Real Estate Consultancy update of IPF report *The Size and Structure of the UK Property Market*, and Department of Communities and Local Government.
- 6 British Property Federation: *IPD Annual Lease Review 2009*, and Investment Property Databank.
- 7 Paul Mitchell Real Estate Consultancy estimates. Rental payments derived from Valuation Office April 2005 rateable values updated for subsequent rental growth, employment costs derived from National Statistics (retail relates to SIC 52, offices to SICs J & K).
- 8 Rental growth Investment Property Databank Ltd © 2010; earnings derived from National Statistics' *Annual Survey of Hours and Earnings*. RPI from National Statistics.
- 9 Paul Mitchell Real Estate Consultancy update of IPF report *The Size and Structure of the UK Property Market*. Based on data gratefully supplied by DTZ, Investment Property Databank, Property Funds Research, and Real Capital Analytics.
- 10 Paul Mitchell Real Estate Consultancy estimates for 2009, based on 2008 data from National Statistics *Investment by Insurance Companies, Pension Funds and Trusts*.
- 11 Investment Property Databank Ltd © 2010.
- 12 IPF report *Multi-asset Allocation in the Modern World*.
- 13 Paul Mitchell Real Estate Consultancy estimates based on National Statistics, *Economic and Labour Market Review*. General approach is to apportion employment and GVA in property as a whole between commercial and non-commercial.
- 14 Paul Mitchell Real Estate Consultancy estimates derived from estimates of 10 year average floorspace completions gratefully supplied by Property Market Analysis, from Department of Communities and Local Government data, and from 2009 investment values of completed developments supplied by PRUPIM.

Acknowledgements

Data compiled and estimated by Paul Mitchell Real Estate Consultancy Ltd (www.pmrecon.com). Supporting property market data gratefully supplied by DTZ, Investment Property Databank, Property Funds Research, Property Market Analysis, PRUPIM, and Real Capital Analytics, none of whom bear any responsibility for the estimates in this document.

