

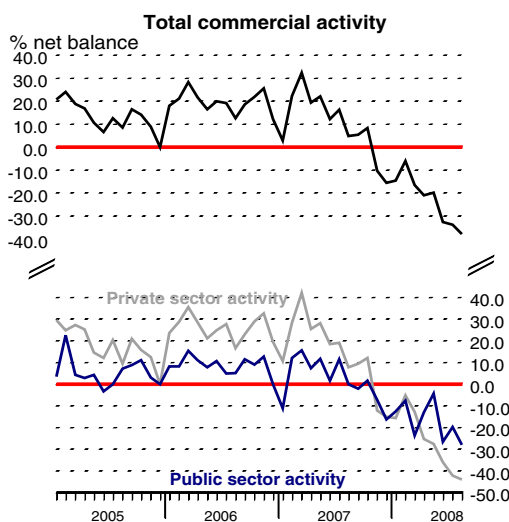
# Commercial Development Activity

September 2008

Activity in commercial property sector fell at steepest pace in the survey's five-and-a-half year history.

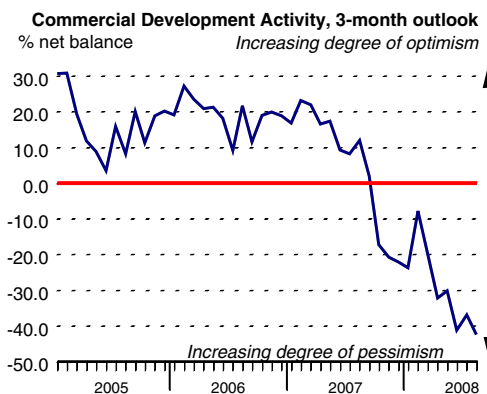
## KEY FINDINGS

- August survey data pointed to a month-on-month reduction of total activity at 42% of commercial developers, compared with just 4% that signalled a rise.
- The resultant net balance – the Total Commercial Development Activity Index – fell to -37.8%, from -33.8% in July, to indicate a new survey record rate of decline.
- Work on both public and private sector projects fell at the sharpest rates in the survey's five-and-a-half year history.
- Reports from commercial developers widely suggested that weak economic conditions and lower credit availability had led to falling market demand in August.



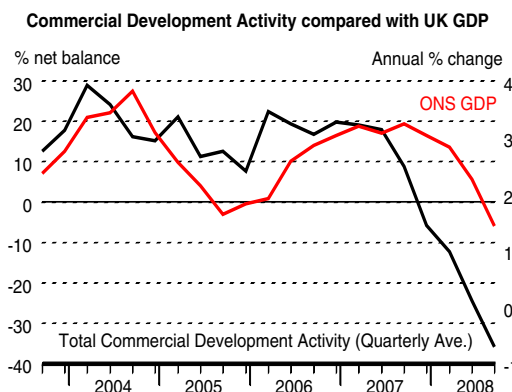
## FUTURE EXPECTATIONS

- August data indicated that commercial property developers remained highly pessimistic about the three-month outlook.
- Anecdotal evidence suggested that unfavourable bank lending conditions, combined with a widening domestic economic downturn were key factors behind the pessimistic outlook.
- The overall degree of negative sentiment was the most marked in the survey history, with pessimism about the three-month outlook broad-based across the three areas of activity monitored.



## COMMERCIAL ACTIVITY & THE UK ECONOMY

- To the right is a comparison of the survey's Total Commercial Development Activity Index against official UK GDP data.
- The chart highlights that the performance of the commercial construction sector has typically mirrored that of the wider UK economy.
- Following the start of the global credit crisis last summer, activity in the commercial property sector started to fall steeply, while the wider economy appeared more resilient. However, latest official GDP data suggest that this resilience has ebbed away, with growth of the whole UK economy slowing markedly in Q2 2008.

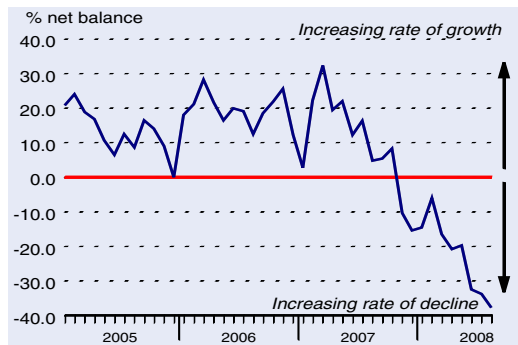


## Commercial Development Activity

### Total level of commercial activity

compared with one month ago

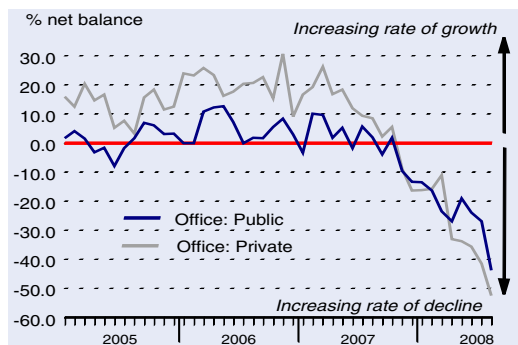
- August data pointed to a steep reduction of overall commercial development activity, with the rate of decline accelerating for a third month running.
- Private sector development activity again fell at a steeper pace than work on public sector construction projects.



### Office activity

compared with one month ago

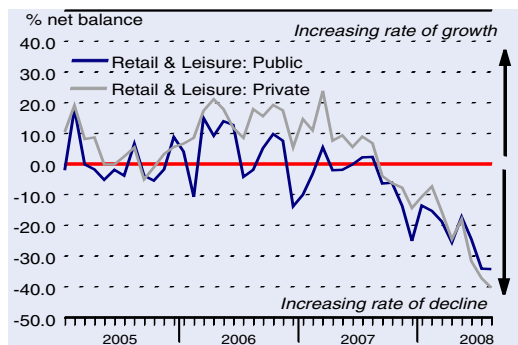
- Commercial developers indicated survey record falls in both private and public sector office activity in August...
- ...with the former recording a sharper rate of contraction.



### Retail & leisure activity

compared with one month ago

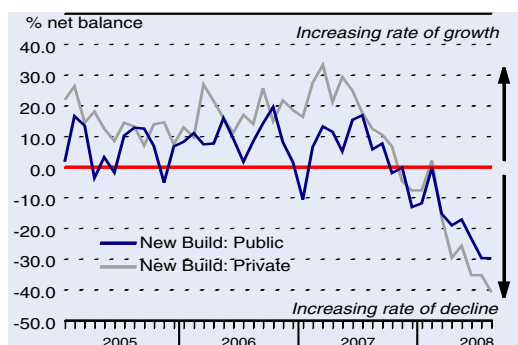
- August data signalled that public sector retail & leisure activity fell at a broadly similar rate to July's survey record.
- Work on private sector retail & leisure projects fell at the steepest pace in the survey's five-and-a-half year history.



### New build activity

compared with one month ago

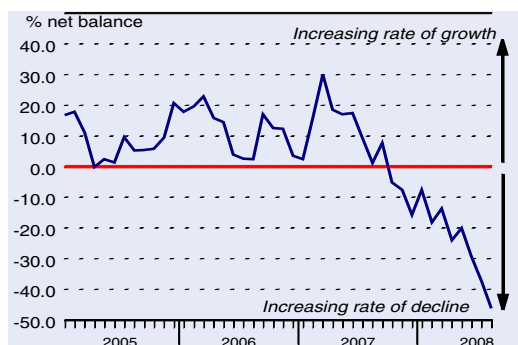
- The rate of contraction in public sector retail & leisure development stabilised in August, following July's series low.
- Private sector new build fell sharply in August, and at a faster rate than its public sector equivalent.



### Industrial/warehouse activity

compared with one month ago

- Work on industrial/warehouse projects fell at a new survey record pace in August.
- Almost half of the survey panel reported a drop in activity compared with one month earlier.

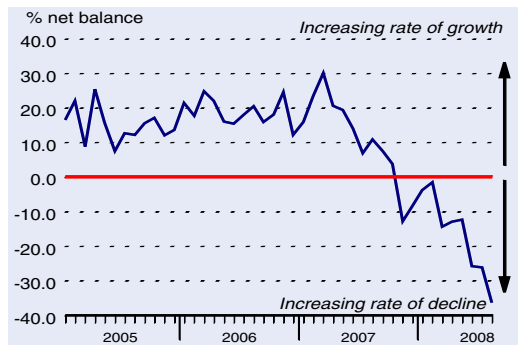


## Commercial Development Activity

### Refurbishment activity

compared with one month ago

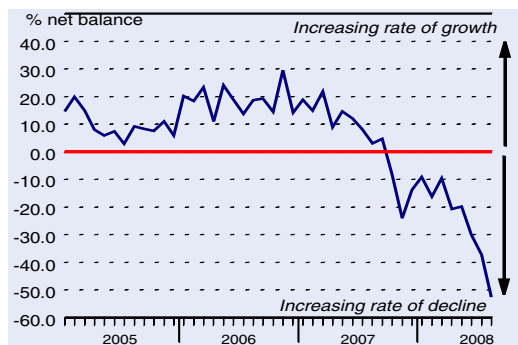
- Commercial developers signalled a further sharp decline in refurbishment activity in August...
- ...with the rate of contraction the steepest since the survey began in March 2003.



### Office fit-out activity

compared with one month ago

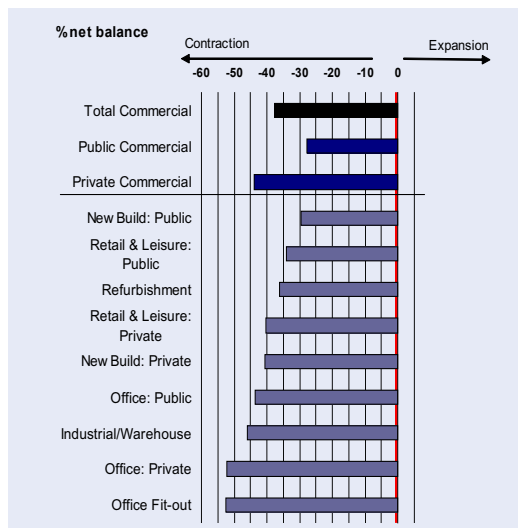
- August's decline in office fit-out activity was a new survey record.
- Lower levels of work on office fit-out projects have now been recorded for eleven consecutive months.



### Summary of activity in August

tables of raw data on page 4

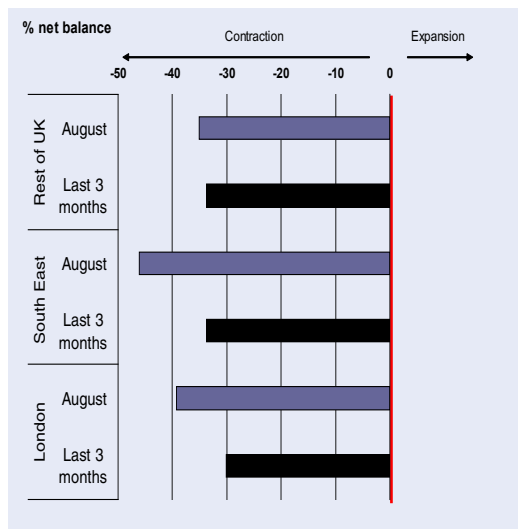
- August data pointed to lower levels of activity in all nine broad areas of development monitored by the survey.
- Office fit-out was the worst performing area of activity, followed by private sector office development.
- Public sector new build saw the slowest reduction in activity.
- Eight of the nine development areas recorded a steeper fall in activity compared with that registered in July.



### Regional commercial activity

compared with one month ago

- London and the South East both recorded the steepest falls in commercial construction in the five-and-a-half year survey history.
- August data indicated that the South East (excluding London) was the worst performing geographical region.
- Activity levels in the 'Rest of the UK' declined sharply in August, but at a slightly slower rate than was recorded in July.



## Commercial Development Activity

### Summary data

all data shown are % net balances (+/-)

	Total			Regions			Expectations			
	Public	Private		London	Rest of the South East	Rest of the UK	Total	Office	Retail & leisure	Industrial/warehouse
2005	+13.3	+5.4	+17.8	+10.9	+14.7	+17.8	+16.8	+19.4	+15.5	+15.5
2006	+19.7	+8.8	+26.0	+24.2	+18.0	+20.2	+19.3	+23.3	+16.1	+18.6
2007	+10.1	+2.1	+14.6	+13.5	+6.7	+15.7	+5.7	+8.7	+2.3	+6.4
Mar'08	-16.4	-23.5	-12.6	+0.0	-28.8	-24.0	-19.6	-19.8	-20.0	-18.9
Apr	-20.8	-13.0	-25.3	-18.4	-12.7	-28.0	-32.0	-37.2	-34.2	-24.7
May	-19.7	-4.3	-27.5	-21.3	-22.6	-27.0	-30.1	-33.3	-30.8	-26.0
Jun	-32.4	-26.4	-35.8	-19.6	-30.5	-27.3	-41.1	-38.5	-43.4	-41.6
Jul	-33.8	-19.6	-42.1	-31.5	-24.6	-38.9	-36.9	-42.0	-32.5	-36.0
Aug	-37.8	-27.8	-43.8	-39.2	-46.2	-35.1	-42.3	-41.8	-38.0	-47.1

	Office		Retail & leisure		New build		Industrial/warehouse	Refurbishment	Office fit-out
	Public	Private	Public	Private	Public	Private			
2005	+1.2	+12.9	+0.7	+4.8	+6.3	+14.5	+8.9	+15.1	+9.8
2006	+5.3	+20.8	+4.0	+14.0	+9.5	+17.6	+12.2	+19.0	+18.9
2007	+0.4	+9.2	-4.8	+4.7	+4.8	+15.8	+7.7	+11.1	+5.2
Mar'08	-23.4	-11.0	-18.6	-15.4	-15.1	-16.3	-13.6	-14.3	-9.5
Apr	-26.9	-32.9	-25.5	-24.4	-18.9	-29.4	-23.9	-12.9	-20.6
May	-19.0	-33.7	-17.1	-17.9	-17.0	-25.6	-20.0	-12.2	-19.7
Jun	-23.9	-35.6	-24.4	-31.6	-23.2	-35.1	-29.2	-25.7	-30.0
Jul	-26.9	-41.4	-34.1	-37.2	-29.6	-35.2	-37.3	-26.0	-37.1
Aug	-43.8	-52.4	-34.1	-40.3	-29.6	-40.7	-46.0	-36.2	-52.5

### Savills Building & Project Consultancy

Savills Building & Project Consultancy, the sponsor of the research, is active in providing development and construction advice throughout the UK and Mainland Europe. The team focus on commercial property primarily within the office, retail and industrial sectors. Specific services include due diligence, development monitoring, project management & rights to light consultancy. Savills undertake a full range of services including Agency, Investment, Valuation, Planning and Property Management.

### About the report

The Commercial Development Activity report is derived from a monthly questionnaire to a panel comprising leading developers and contractors. The results show the percentage of respondents reporting an improvement, deterioration or no-change since the previous month. A positive net balance signals an increase (or improvement), a negative net balance a decrease (or deterioration). The higher/lower the net balance, the greater the rate of change signalled.

### Markit Economics

The survey is compiled by Markit Economics on behalf of Savills. Markit Economics is a specialist compiler of business surveys and economic indices, including the Purchasing Managers' Index (PMI) series, which is now available for 26 countries and key regions including the Eurozone and BRIC. The PMIs have become the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends.

### Contacts

Savills  
Michael Pillow  
Head of Building Consultancy  
t. +44 (0) 20 7409 8985  
e. mpillow@savills.com  
Mat Oakley  
Head of Commercial Research  
t. +44 (0) 20 7409 8781  
e. moakley@savills.com  
www.savills.co.uk.

Markit Economics  
Henley on Thames  
Oxon RG9 1EL, UK  
t. +44 (0) 1491 418 700  
e. economics@markit.com  
www.markit.com

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