

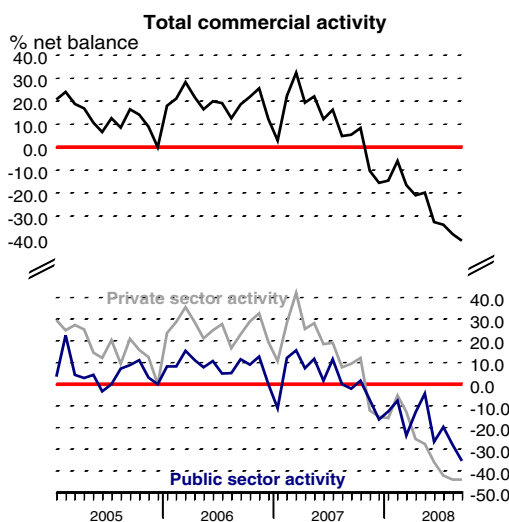
Commercial Development Activity

October 2008

Commercial property downturn deepened in September as global credit crisis continued to affect funding.

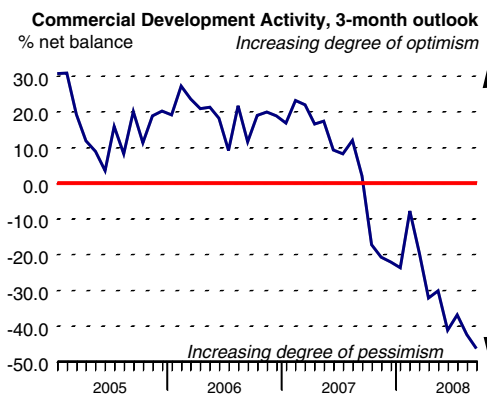
KEY FINDINGS

- September data pointed to another difficult month for the commercial property sector, with development activity hit by reduced bank lending and the weak economic outlook.
- Just 7% of survey respondents reported a rise in activity, compared to 48% that indicated a fall. At -40.7%, the resultant net balance – the Total Commercial Development Activity Index – was the lowest since the survey began in March 2003.
- The latest survey pointed to particular weakness in the office development sector, reflecting concerns about tenant demand and deteriorating conditions in the wider UK economy.



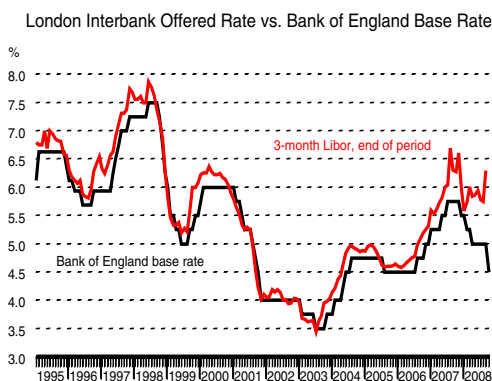
FUTURE EXPECTATIONS

- Business sentiment dropped to a new series record low in September, as developers anticipate that recent global financial market turmoil will further restrict credit availability and reduce tenant demand.
- Data indicated that firms were most pessimistic about the prospects for office and retail & leisure development projects.
- The three-month outlook for industrial/warehouse development improved slightly from August's low, but remained well inside negative territory.



COMMERCIAL ACTIVITY & THE UK ECONOMY

- The chart to the right shows the Bank of England policy rate against the three-month London interbank offered rate (Libor).
- The ongoing global credit crisis has seen a detachment between central rates and Libor over the past twelve months, with the spread widening sharply during September 2008 as a result of renewed money market turmoil.
- With most business borrowing based on Libor, the key issue for developers will be whether the Bank of England's 50 basis points cut in October will have a significant impact on interbank lending rates.

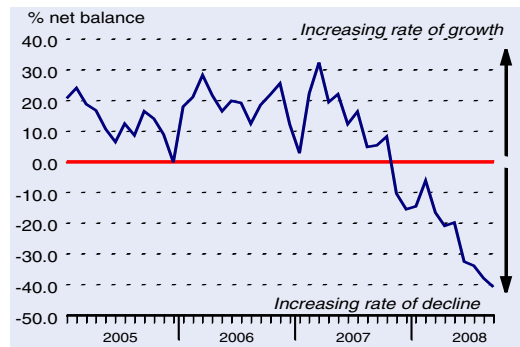


Commercial Development Activity

Total level of commercial activity

compared with one month ago

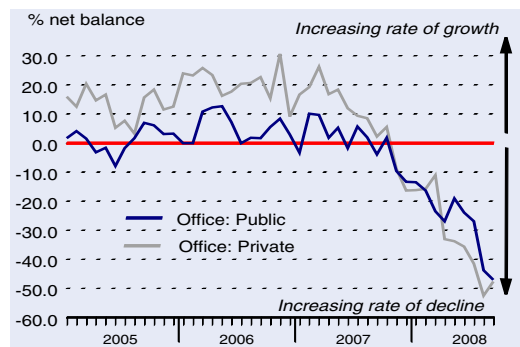
- Overall activity in the commercial property sector declined for an eleventh successive month in September.
- The rate of contraction in private sector activity was broadly unchanged since August.
- Work on public sector projects fell at a series record pace in September.



Office activity

compared with one month ago

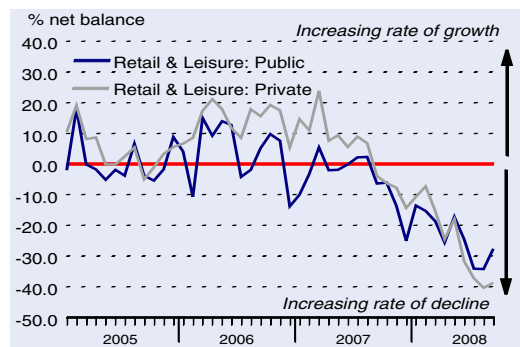
- Latest data pointed to steep declines in both public and private sector office development.
- More than half of the survey panel (54%) signalled a reduction of private sector office activity compared to one month previously.



Retail & leisure activity

compared with one month ago

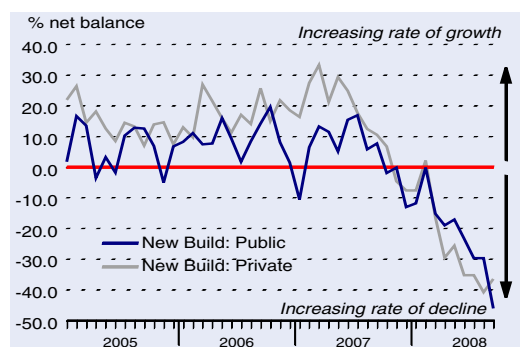
- Both public and private sector retail & leisure activity fell for a thirteenth successive month in September.
- However, the rates of contraction eased slightly since August.



New build activity

compared with one month ago

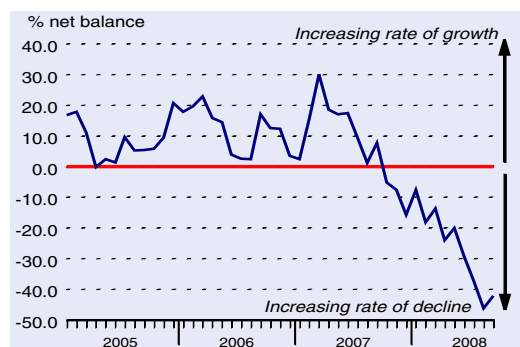
- September data pointed to sharp declines in both public and private sector new build.
- Public sector new build fell at a steeper rate than its private sector equivalent, with the latest drop the fastest since the survey began in March 2003.



Industrial/warehouse activity

compared with one month ago

- Almost 44% of survey respondents reported a reduction in industrial/warehouse activity in September, compared to less than 2% that recorded a rise.
- At -42.0%, the resultant net balance was the second-lowest in the series history.

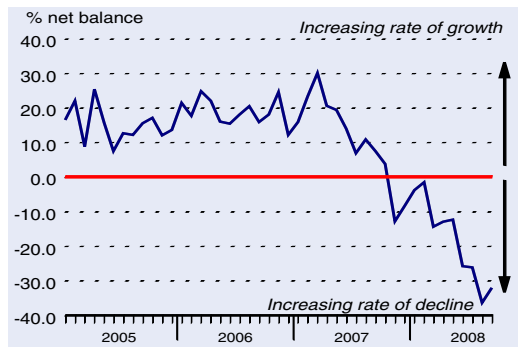


Commercial Development Activity

Refurbishment activity

compared with one month ago

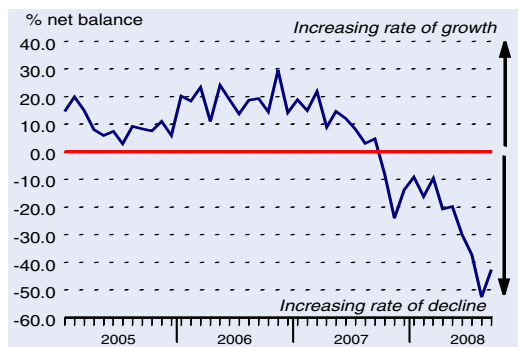
- Refurbishment activity declined for an eleventh successive month in September, although the rate of contraction eased since August's survey record.
- Around 41% of panel members reported a drop in activity, compared to just 9% that indicated growth during September.



Office fit-out activity

compared with one month ago

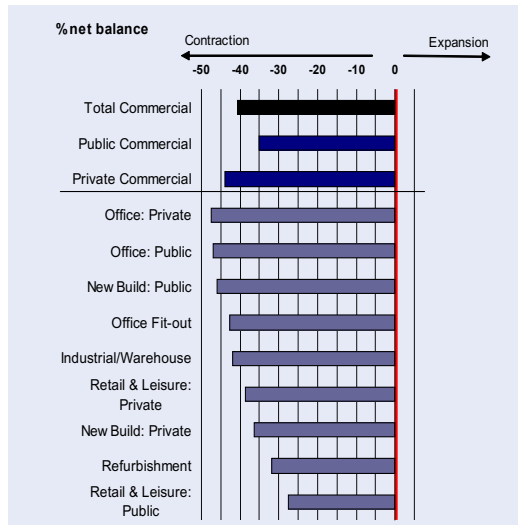
- Office fit-out activity fell sharply in September and at the second-fastest rate in the survey history.
- Anecdotal evidence suggested that the weak economic outlook had resulted in clients delaying office fit-out work in September.



Summary of activity in September

tables of raw data on page 4

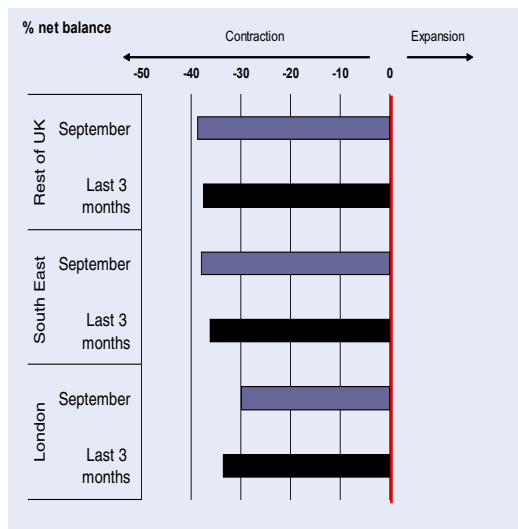
- Commercial development continued to decline in all nine areas monitored by the survey.
- September data pointed to particular weakness in office development and fit-out projects, reflecting reduced corporate spending and a deepening slowdown in the wider UK economy.
- Steep falls in both public and private sector new work were recorded in September. The drop in private sector new build was largely attributed to tight bank lending conditions.



Regional commercial activity

compared with one month ago

- All three UK regions monitored in September recorded sharp contractions of commercial development.
- The 'Rest of the UK' was the worst performing geographical area, with the latest drop in activity broadly similar to July's series record.
- In London and the South East, overall levels of commercial development fell at slower rates than one month earlier.



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
Apr'08	-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
Sep	-40.7	-35.2	-44.0	-29.8	-38.0	-38.7	-46.2	-51.3	-45.8	-41.3

	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
Apr'08	-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
Sep	-46.9	-47.6	-27.5	-38.6	-46.0	-36.3	-42.0	-31.9	-42.6

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

The intellectual property rights to the Commercial Development Activity Report provided herein is owned by Markit Group Limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. Markit, PMI and Purchasing Managers' Index are all trademarks owned by The Markit Group.

