

Core Issues

Springtime for Germany as inflation back on UK agenda

April 2010





Whilst the UK economy would appear to be gradually emerging from the longest recession of the G7 economies, the German economy appears to be starting to motor strongly as it vies with China to dominate world exports.

Business

UK

Risk of inflation in the UK is back on the agenda for economists. The high rate of inflation in January, with the consumer price index (CPI) at 3.5%, is being linked to oil price movements plus the CBI industrial trends report which indicates that businesses are looking to raise their prices. Andrew Sentence, a member of the Monetary Policy Committee (MPC), has flagged inflation as a concern for the MPC in its decision making. February inflation (CPI) fell from the January 14 month high to 3.0%.

The February unemployment figures showed a drop in the number of jobless claiming benefit, which was a positive. However, a record number of 8.16m classed as 'economically inactive' suggests that more people are dropping out of the employment potential which could be a barrier to growth as the economy gets going again.

Was January just a temporary blip on the road to recovery as nationwide snowy weather kept people away from the shops or was it part of an underlying trend? Carpetright has reported weak performance figures for the seven weeks to

20 March and, worryingly, the performance of the UK outlets was considerably poorer than the Belgian and Dutch ones. In addition, competitor Allied Carpets has survived a pre-packed administration but with a reduced portfolio of just 50 shops.

Official figures showed that the total goods sold in February rose by 2.1% compared with January, the biggest monthly rise for 21 months, and a possible indication of a strengthening economy.

The FTSE 100 grew by just under 5% for the first quarter of 2010. Insolvencies were reduced in February compared to the same period in 2009 but showed little change on the previous month.

UK GDP shrank 6.2% between early 2008 and autumn 2009, the six quarters of the UK recession which lasted the longest of any of the G7 countries. From 2006, government spending has grown from 44% to 52% of GDP and now compares unfavourably with 48% in Germany, a country often regarded as having a centralist government with a large public sector.

Europe

Inflation in the Eurozone jumped to 1.5% in March from 0.9% in February. The unemployment figures continued their upward trajectory reaching 10% in February, although they have started to fall in Germany.

Industrial production in the Eurozone grew by 1.7% in January, up from 0.6% in December, the latter being revised from the initial forecast of a fall of 1.7%, representing a significant revision. The Markit European Services PMI jumped to 53.7 in March from 51.8, while Manufacturing was up to 56.3 from 54.2 in February.

The Ifo Business Climate survey of confidence in Germany was up to 98.1 from 95.2 in February, indicating that spring has arrived for the German economy. Confusingly, this result contrasted with a poll from ZEW, an economic think tank, showing that confidence levels fell to 44.5 for March, down from 45.1 in February.

USA

February high street sales rose by 0.3% despite the heavy snowstorms, giving a 3.9% year on year rise which included a downward revision of the January figures from 0.5% to just 0.1%.

The Federal Reserve in its March statement pledged to keep interest rates low for some time. Meanwhile, high levels of unemployment (9.7%) have been cited as threatening consumer spending.

US inflation, the consumer price index, was 0.2% in February, unchanged from January. Prices were up 2.1% from 12 months earlier. The Institute for Supply Management Chicago Business Barometer slipped to 58.8 in March from 62.6 the previous month (where results above 50 indicate expansion).

Property Market

The national tourism agency, Visit Britain, has predicted that tourism will increase its contribution to the UK economy by 3.5% per annum over the next decade.

A consortium has created a green commercial property fund for institutional investors to consider buying and refurbishing old offices that are environmentally poor. The business model is that normal market rents will be charged but, because of the lower costs of energy, demand will be higher. The target set for all new commercial buildings by the government is they must be zero carbon by 2020, but the strategy for the existing stock has yet to be set. Some 90% of the offices in the IPD index are more than 10 years old and are thus unlikely to meet current or future rules for new build. The UK average could be a higher proportion than 90% because the make up of the IPD Index tends towards more modern, higher quality properties. This could become a significant issue bearing in mind that around 18% of the UK's carbon emissions come from non-domestic buildings.

Landlords ignoring good accounting practice

Kingston University is currently undertaking some research into the 2006 RICS Code of Practice: Service Charges in Commercial Property. Initial findings suggest that landlords are ignoring good accounting practice principles. This would support the concern that many tenants still have that bad management practices are being masked by the lack of application of accounting principles. The reasearch is scheduled to be published later in the year and may see the call for the Code to become a requirement rather than a guidance note.



Somerdale to close after Kraft undertaking

Kraft Foods' battle to takeover Cadbury raised a number of issues in the press and Parliament around the process. One highly emotive property issue seemed to have been resolved ahead of the takeover as Kraft raised hopes that the Somerdale plant would be kept open. However, the company came under heavy fire from UK parliamentarians in mid-March after its February announcement that the plant will close after all raising angry concerns that Kraft has possibly violated UK laws on mergers and acquisitions.

The House of Lords Economic Affairs Committee has said that spending on Public Finance Initiatives (PFI) schemes should not be hidden but published alongside net public debt. This is to promote the transparency of schemes such as the refurbishment of the Treasury building.

The Thames Valley has taken another hit with Fujitsu moving out of 75,000 sqft of office space at Bracknell following a cut of 10% in its UK workforce. This may well rise to 100,000 sqft. The area was hit hard at the start of the millenium but this time round it does not appear to be as bad. While lettings in 2009 were half of those in the previous year and developments are down circa 80%, supply is also less although certain areas have significant vacancy rates. For example, Bracknell has a vacancy level of 22%. The change of requirements in the IT sector have significantly affected the office market. Cisco Systems took 723,000 sqft at Green Park, Reading at the turn of the millenium but now needs less than 100,000 sqft.

Commentary

London has slipped back in the ranking of financial centres. In the Financial Centre Index compiled for the City of London Corporation by Z/Yen, the score for London fell by 14 points, taking it from a clear lead to joint first place with New York. Third was Hong Kong and fourth Singapore, both of which had made significant increases in the points scored. London's score was reduced because of regulatory issues and new taxes.

The unveiling of the £30bn super fast rail lines by the Department of Transport would create a Y-shaped network of lines from London with trains capable of achieving 250mph. It would cut travel times between London and Birmingham from 84 to 49 minutes, and Leeds to London to 1 hour 20 minutes, a reduction of 60 minutes. This would open up a number of interesting changes to specific areas. For example, the Birmingham interchange would be at Birmingham International creating a new major transport hub. Likewise, there would be a hub at Old Oak Common to the west of London. Both of these areas are likely to see significant changes and improvement, albeit the earliest date would be after the completion of Crossrail in 2017.

Digital Natives – social crusaders or self-servers?

Those born between 1980 and 2000 are generally known as Generation Y but they are also now badged as Digital Natives. They have not had to relearn skills for the digital age as they have grown up with digital technology. There have been discussions as to how this group will effect changes across the board from education to retailing. However, for some academics, the range of skills in Generation Y may be as wide

as the variation between generations with only a small group that are truly Digital Natives. That variation would seem to extend to how they regard socio-economic issues. The concept of the internet fostering the development of more responsible citizens because their technological expertise enables them to campaign widely on social issues may be debunked. The use of technology appears to be simply a means of broadcasting their own activities, suggesting a more self-centred approach.

Out of London

Ian Smith's report on the relocation of civil servants proposes to move 15,000 civil service jobs out of London over the next five years and has set a longer-term goal of reducing the number in the capital by a third. The intention is a good one but the practicality may be harder to achieve. It is not simply a numbers game but must also reduce the overall cost.

To do that a number of things need to happen. New space needs to be taken in the right locations in the right buildings at the right cost. The old space must be disposed of as it is no good moving people out of London only to find that the offices they occupy are on long leases. If so, the liability will continue, and could, indeed, be greater. Once out of London, there has to be an avoidance of double desks so that the people moved out do not then spend two or three days a week back in London staying in hotels and hot desking in an office because of the 'need' for face-to-face sessions with people. That approach will not reduce costs.

Finally, there is the overall costs involved in persuading people to move away from London. These will involve relocation services, incentives etc., so hopefully someone is looking at what the real benefit will be before implementing this proposal.

The International Accounting Standards Board (IASB) currently has two consultation documents affecting property: a review of IAS37 and surplus leases, and their ideas on how to bring operating leases on to the balance sheet. The latter, in particular, could have a significant impact on corporate occupiers. Over the last six months, the group of the 20 most industrialised countries has been trying to create a single set of high quality accounting standards. While getting agreement was always going to be difficult, the European Union's internal market commissioner has suggested that funding of the IASB might be dependent upon it bowing to pressure from the EU to make changes to its governance so that the IASB can be used as a tool to increase financial stability.

Adding in a political dimension to the creation of standards could well see a number of countries outside the EU drifting away from the idea of convergence because it will seem that they are bowing to the EU. That would then mean that different countries will treat leases and liabilities differently, making it harder for both multi-nationals and occupiers with different reporting standards who will have different ways of assessing leases and liabilities.

Core issues is a monthly review on current factors influencing corporate occupiers and their real estate.

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