UK Market Outlook:
Prospects for Secondary Property

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Presentation to
Association of Property Bankers

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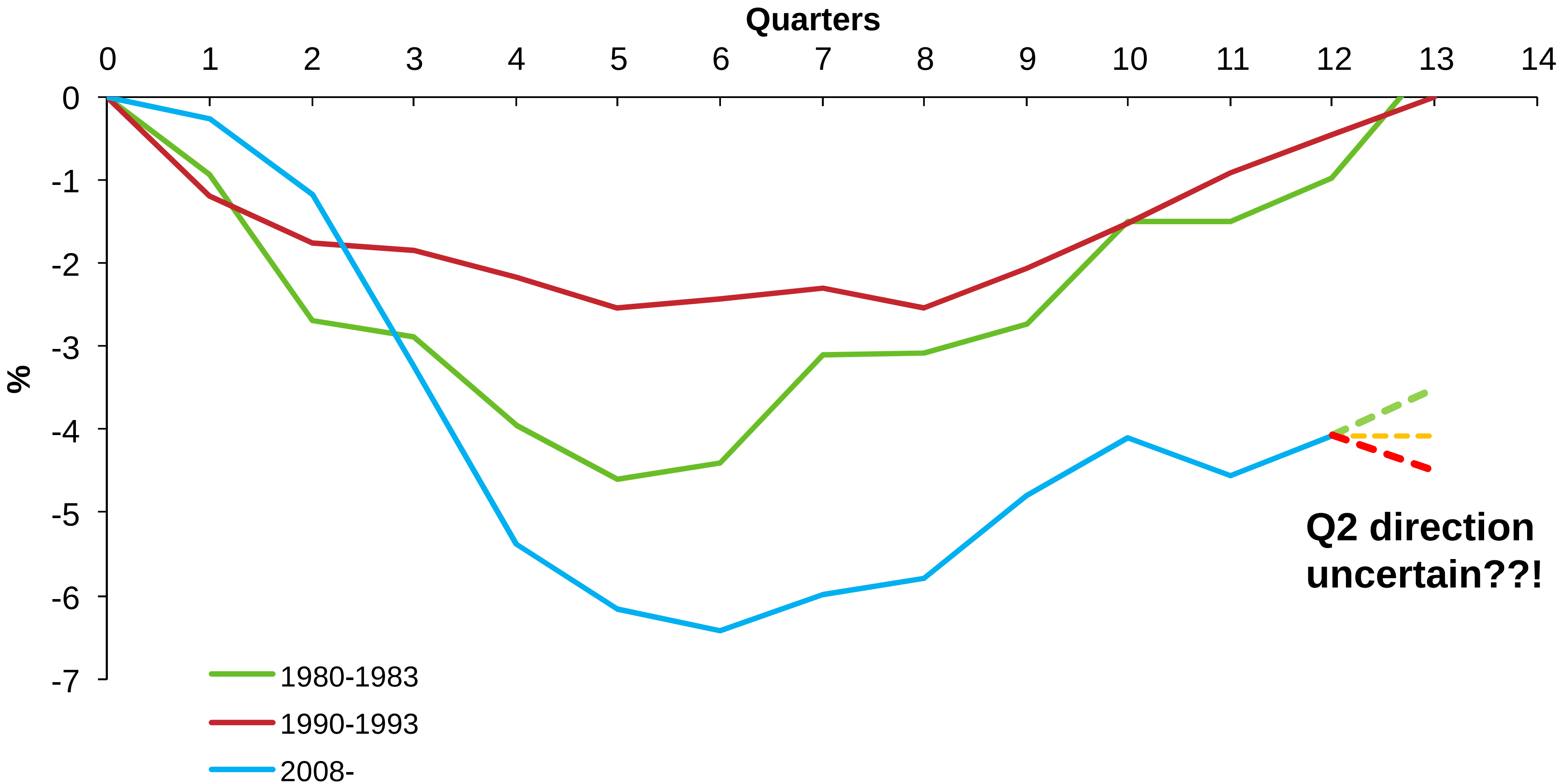
Agenda

- Economic background
- Occupier markets and rental prospects
- Investment market trends
- Prime v secondary property performance
- Conclusions and implications

UK Recession Comparison

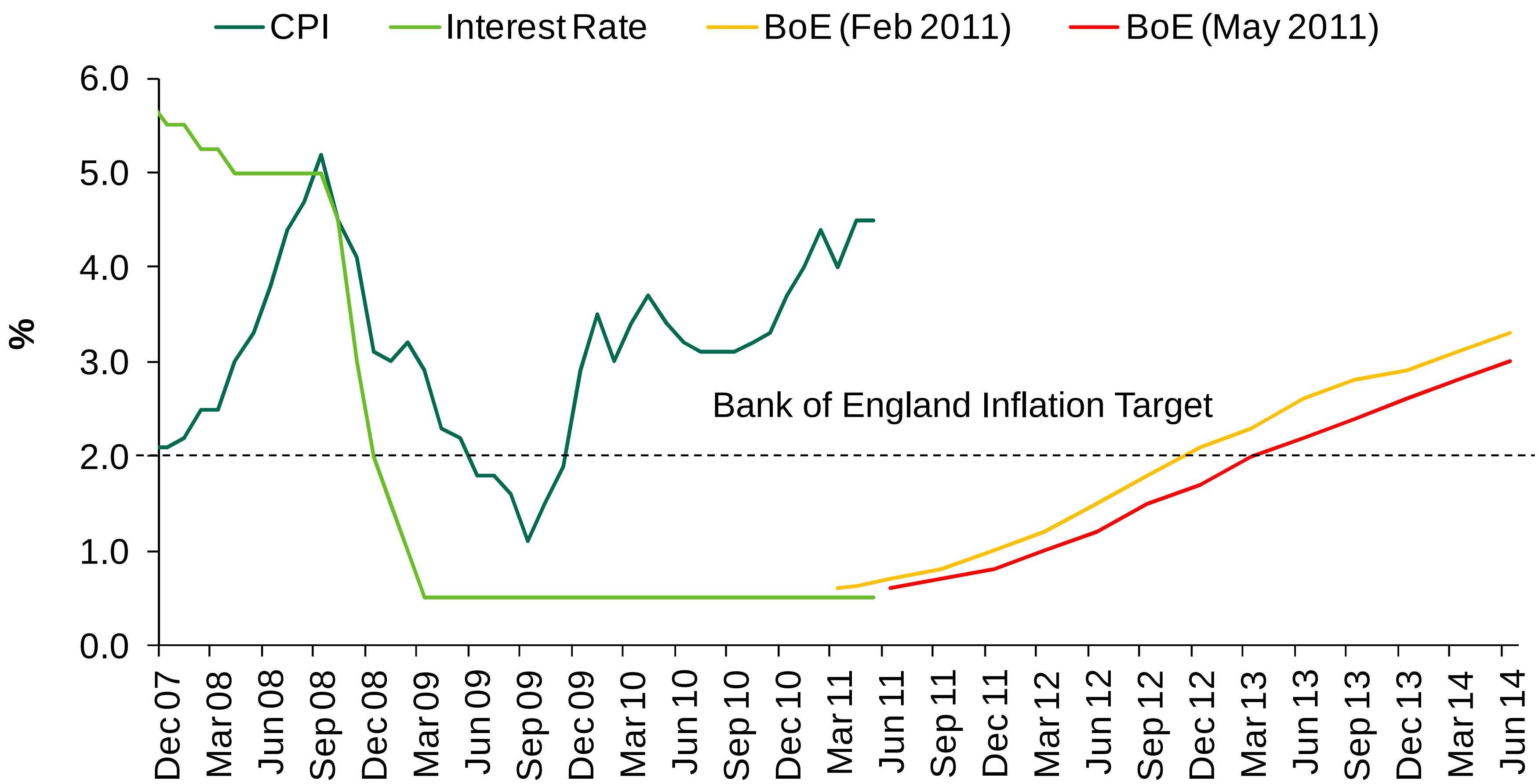
Cumulative % Fall in output from Peak



Source: CB Richard Ellis, ONS, EcoWin

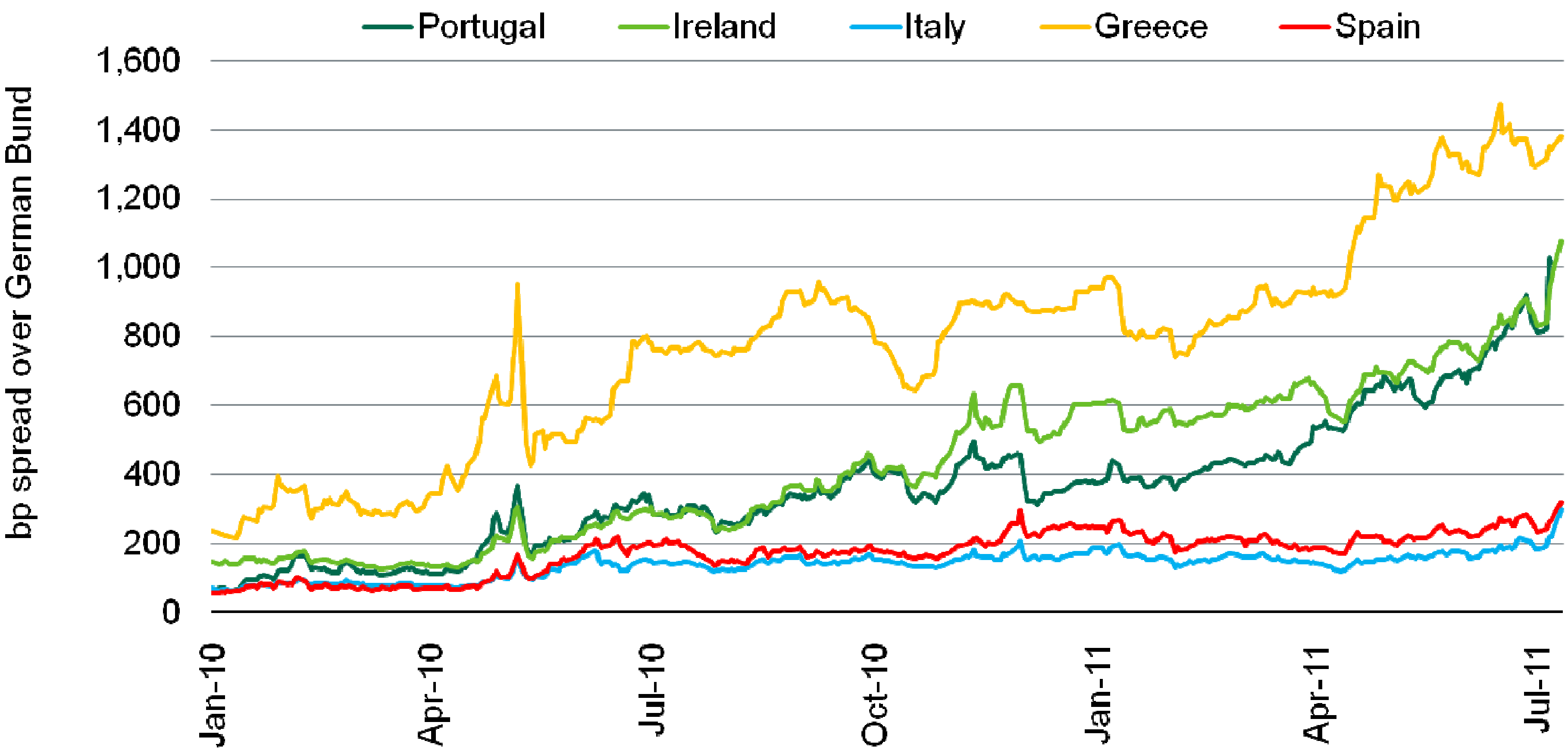
Inflation and the Base Rate

Market expectations of interest rates



Sources: EcoWin, Bank of England Inflation Report, May 2011

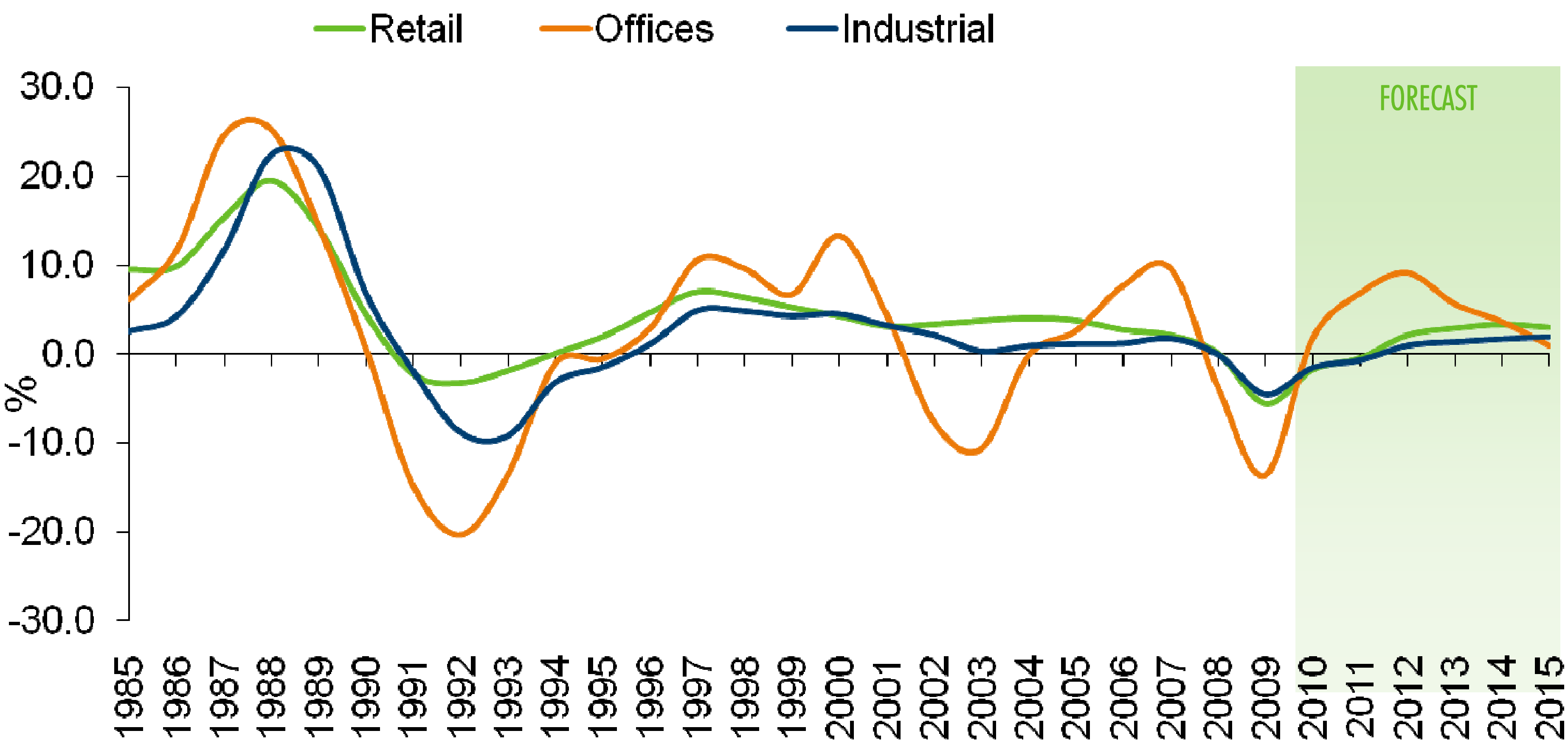
10 Year Bond Spread over Bunds



Source: Macrobond

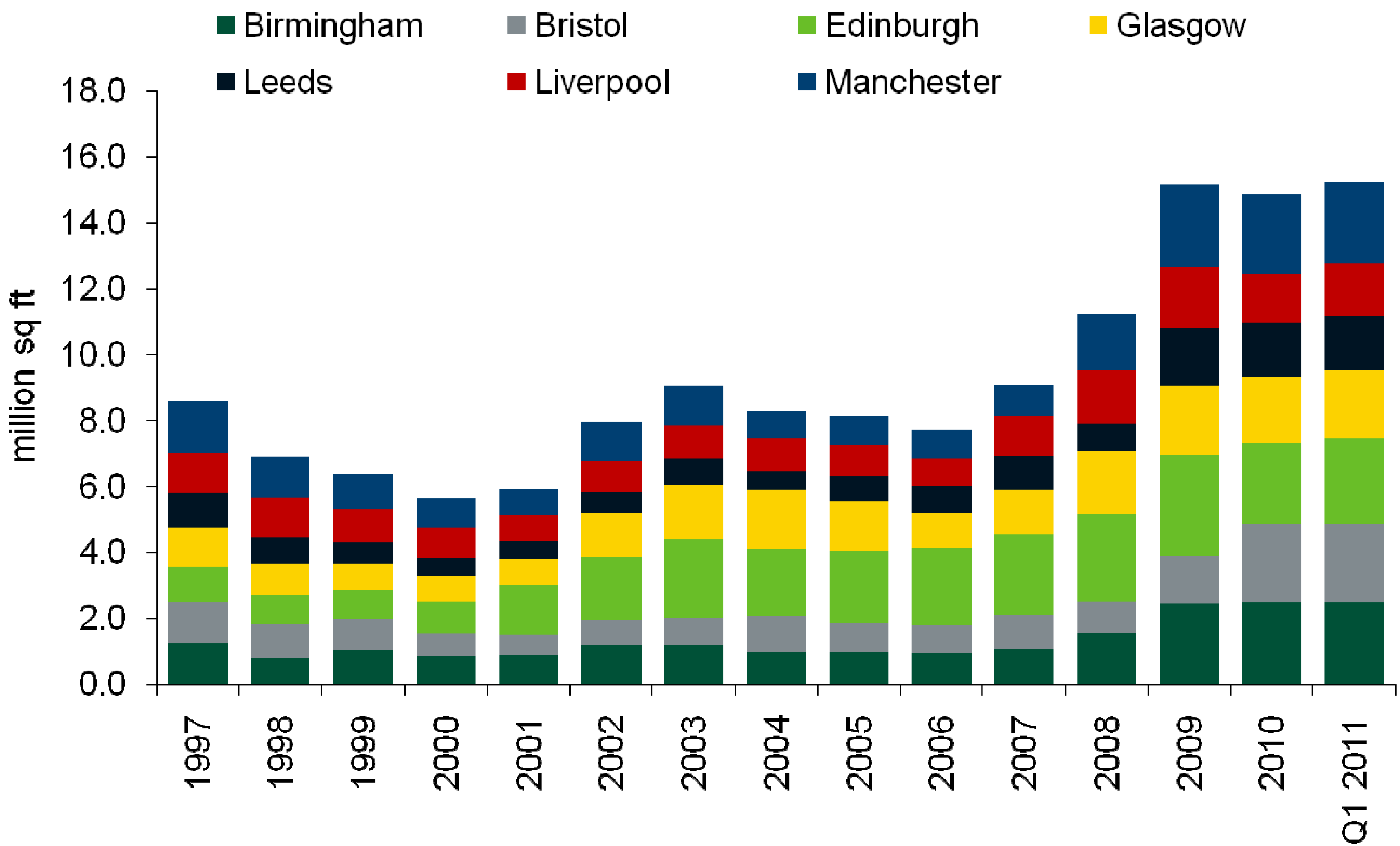
Sector Rental Value Growth

Offices driven by London cycle, low momentum elsewhere



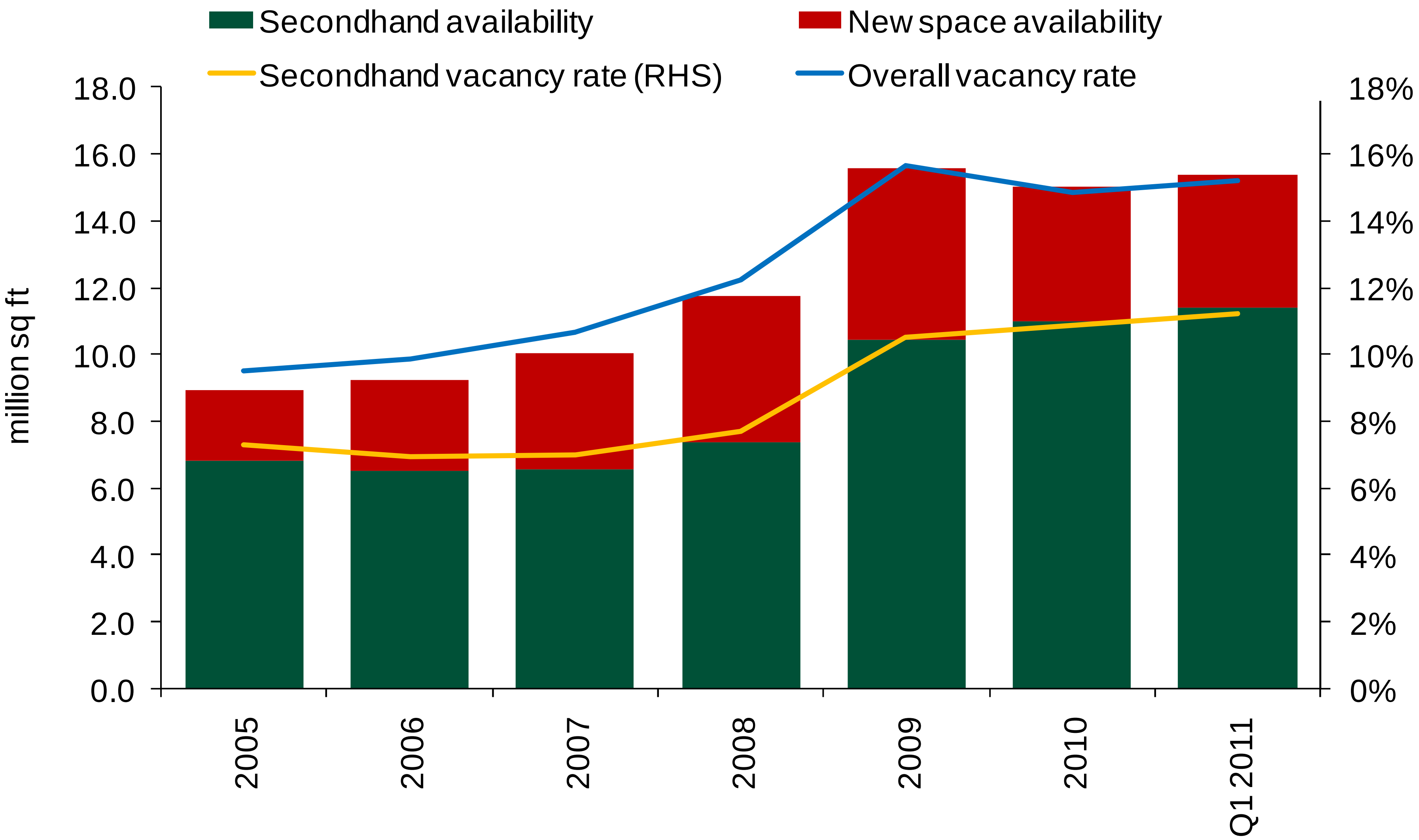
Sources: IPD, CB Richard Ellis

Office Availability in Regional CBDs



Source: CB Richard Ellis

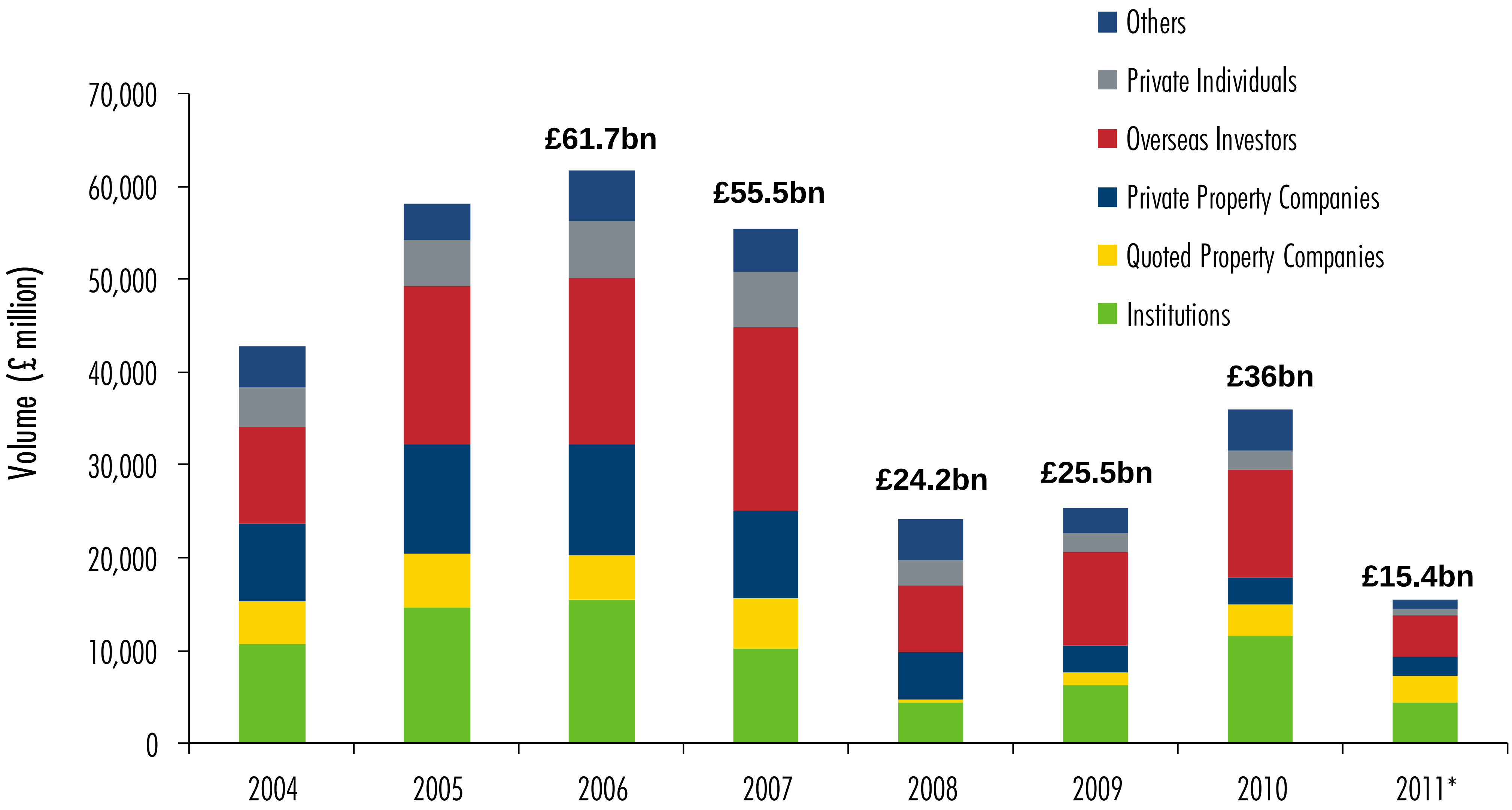
Total Regional CBD Office Availability



NB: does not include Aberdeen; includes Edinburgh & Southampton data only from 2005
Source: CB Richard Ellis / Valuation Office / PMA

Commercial Property Investment Transactions

By Investor Type

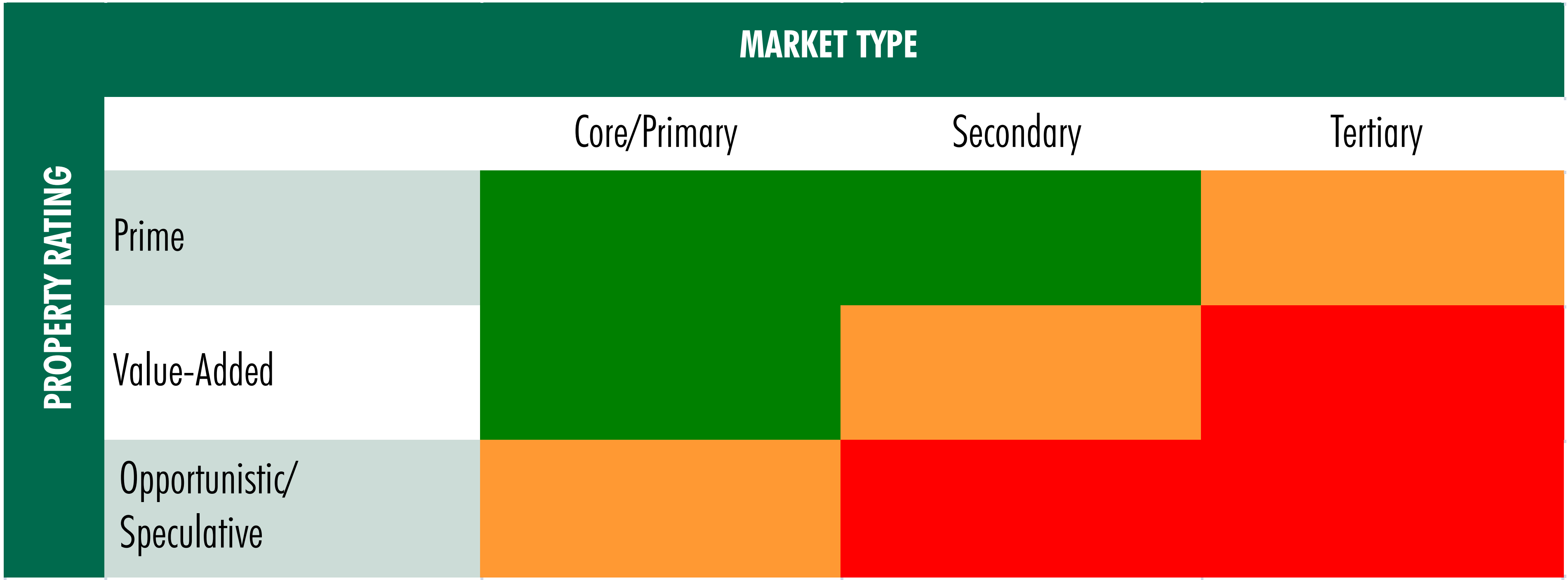


*YTD

Sources: Property Data, CB Richard Ellis

Property Risk and Market Risk

Selective focus of investors and lenders

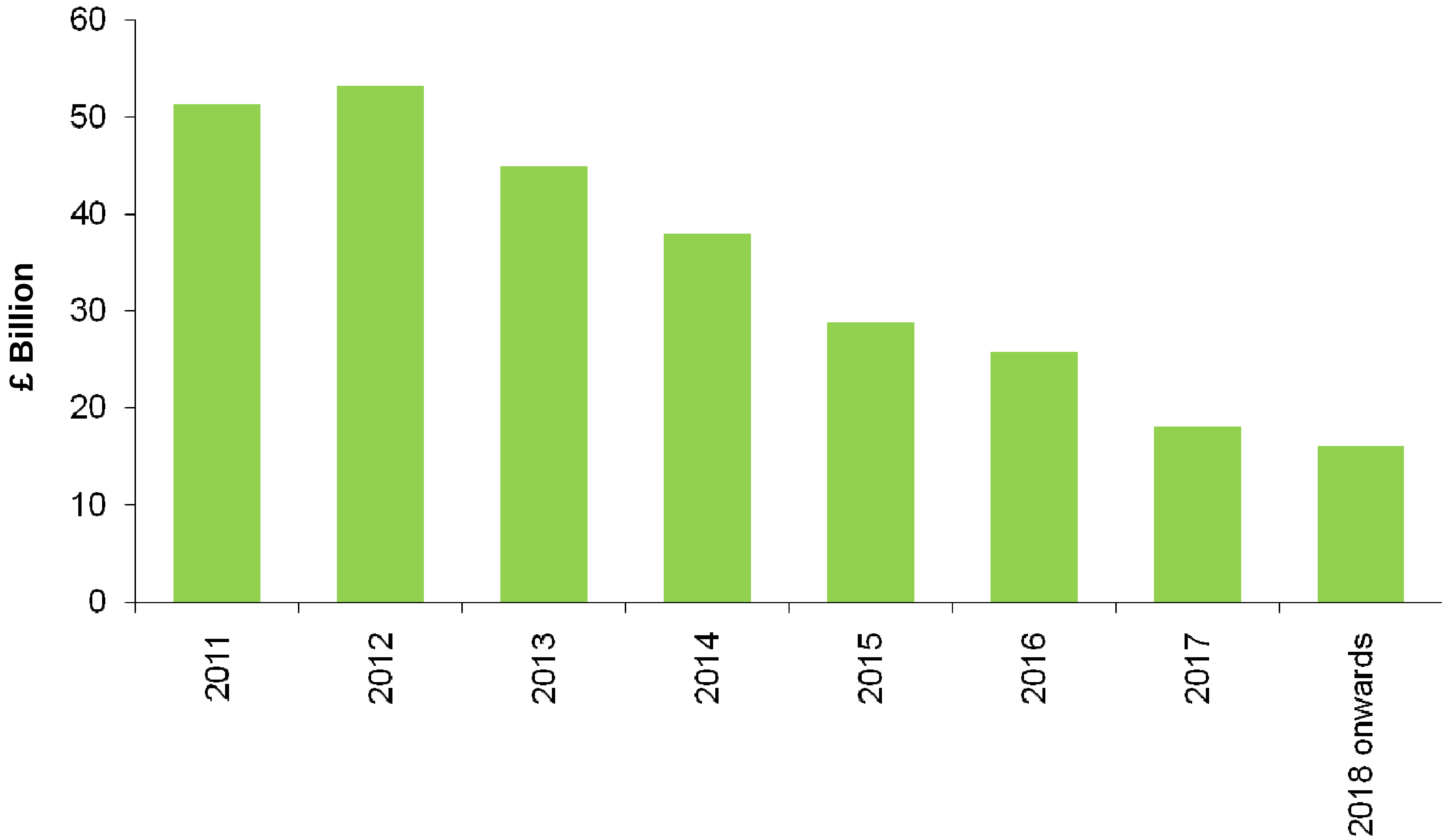


- **Appetite for risk**
- **Quality of assets v location: income security and sustainability**
- **Management capability of investor/borrower**

Sources: CB Richard Ellis

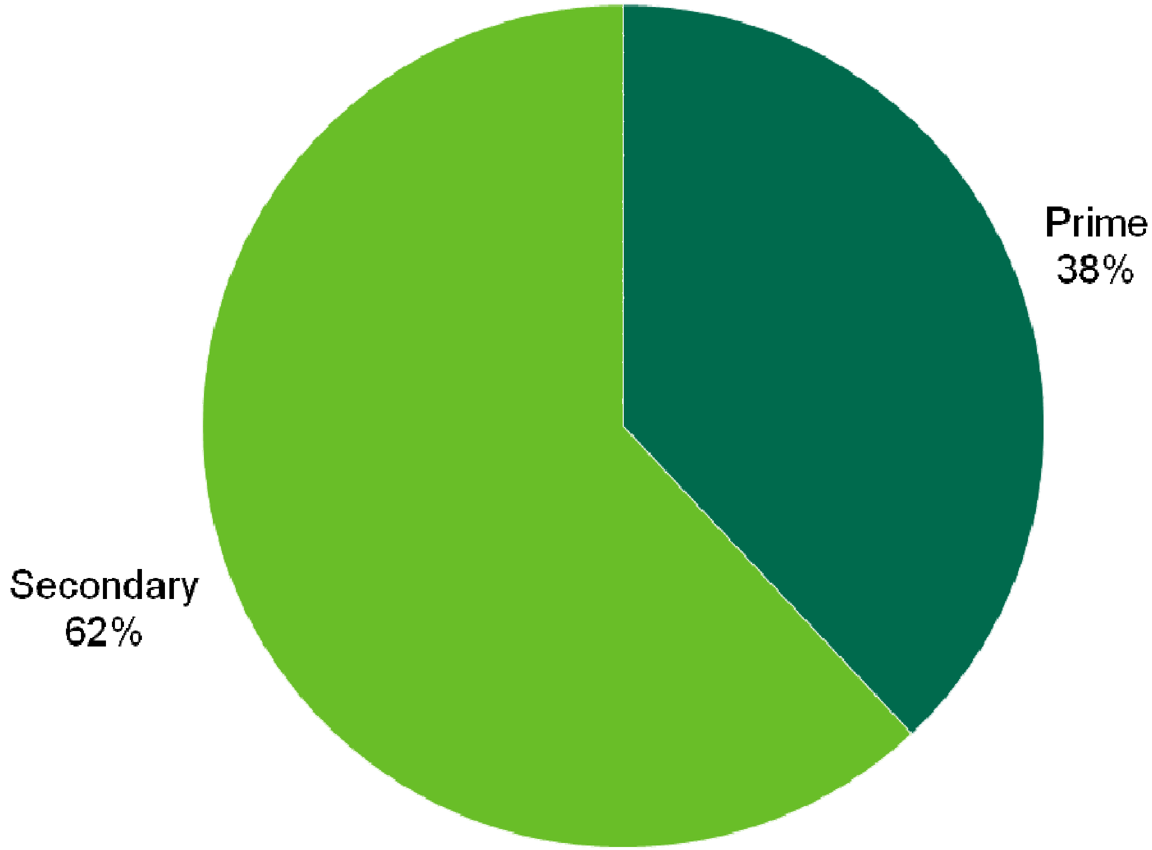
UK Commercial Real Estate: Debt Maturity Profile

£149bn of loans mature in the next 3 years



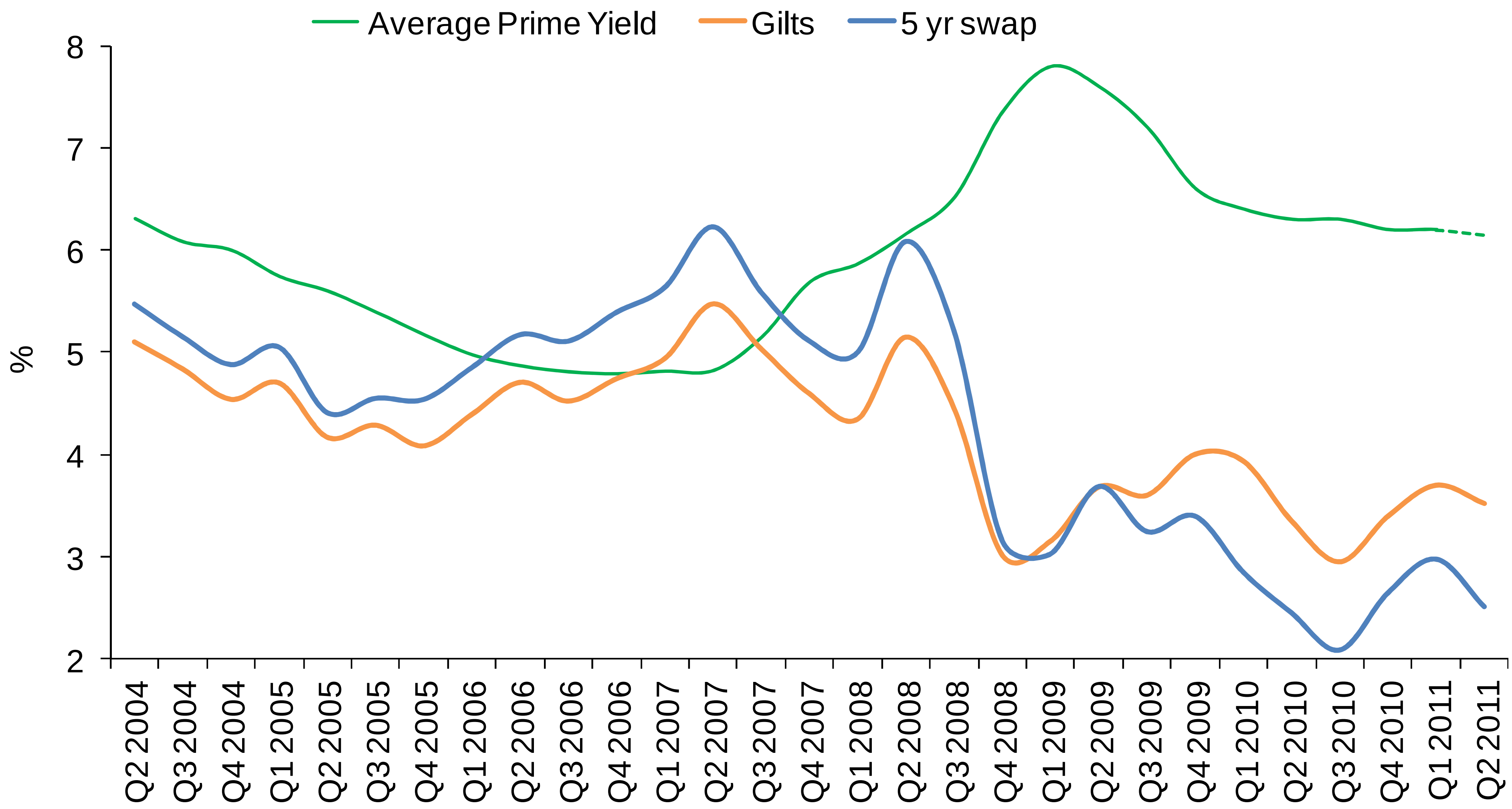
Sources: CB Richard Ellis, De Montfort University

Prime Vs Secondary: Current Loan Book Weightings



Sources: CB Richard Ellis, De Montfort University

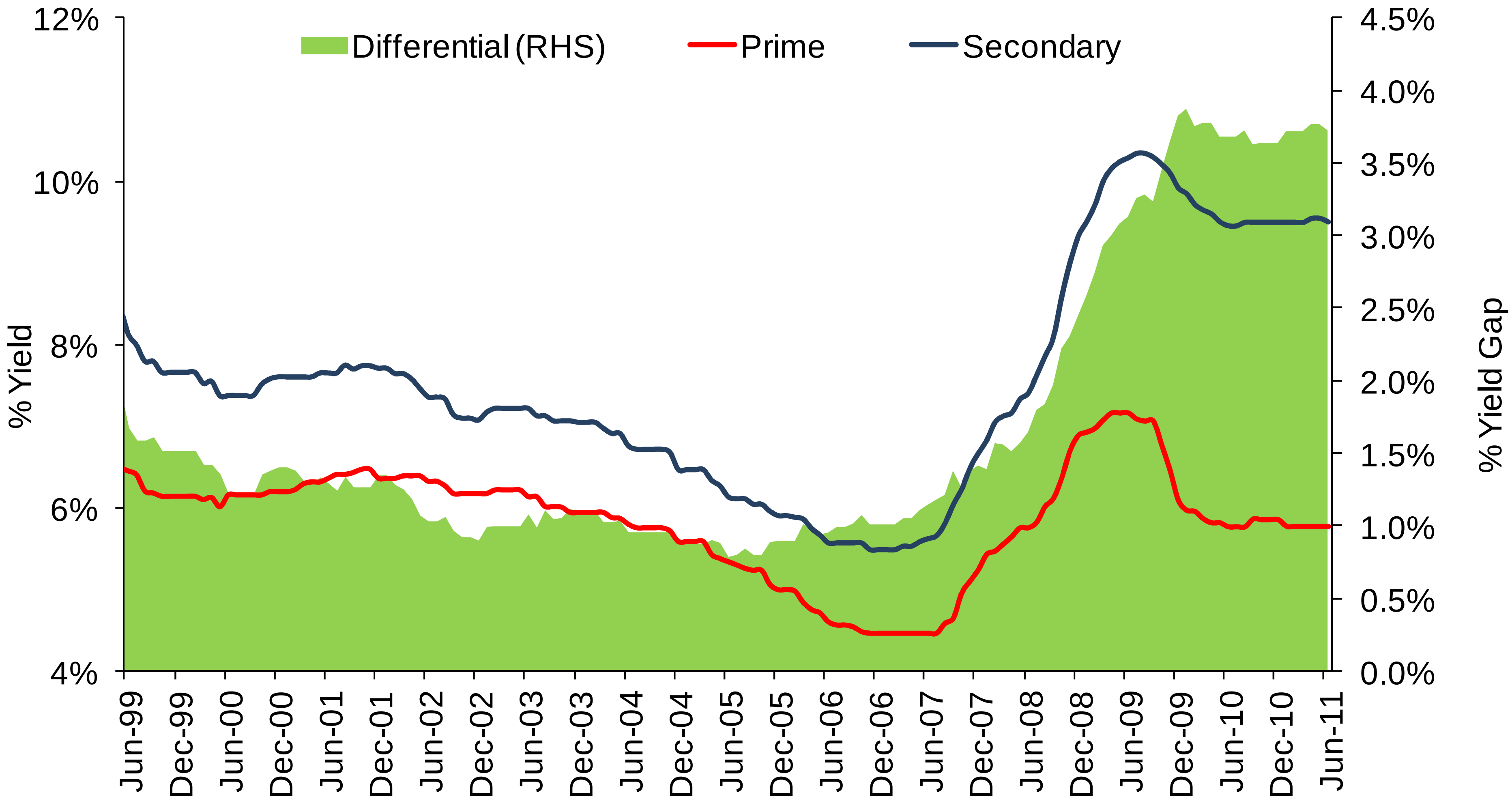
Property: Comparable Pricing



Sources: CB Richard Ellis Rent & Yield Monitor, Macrobond

Prime v Secondary Property Yields

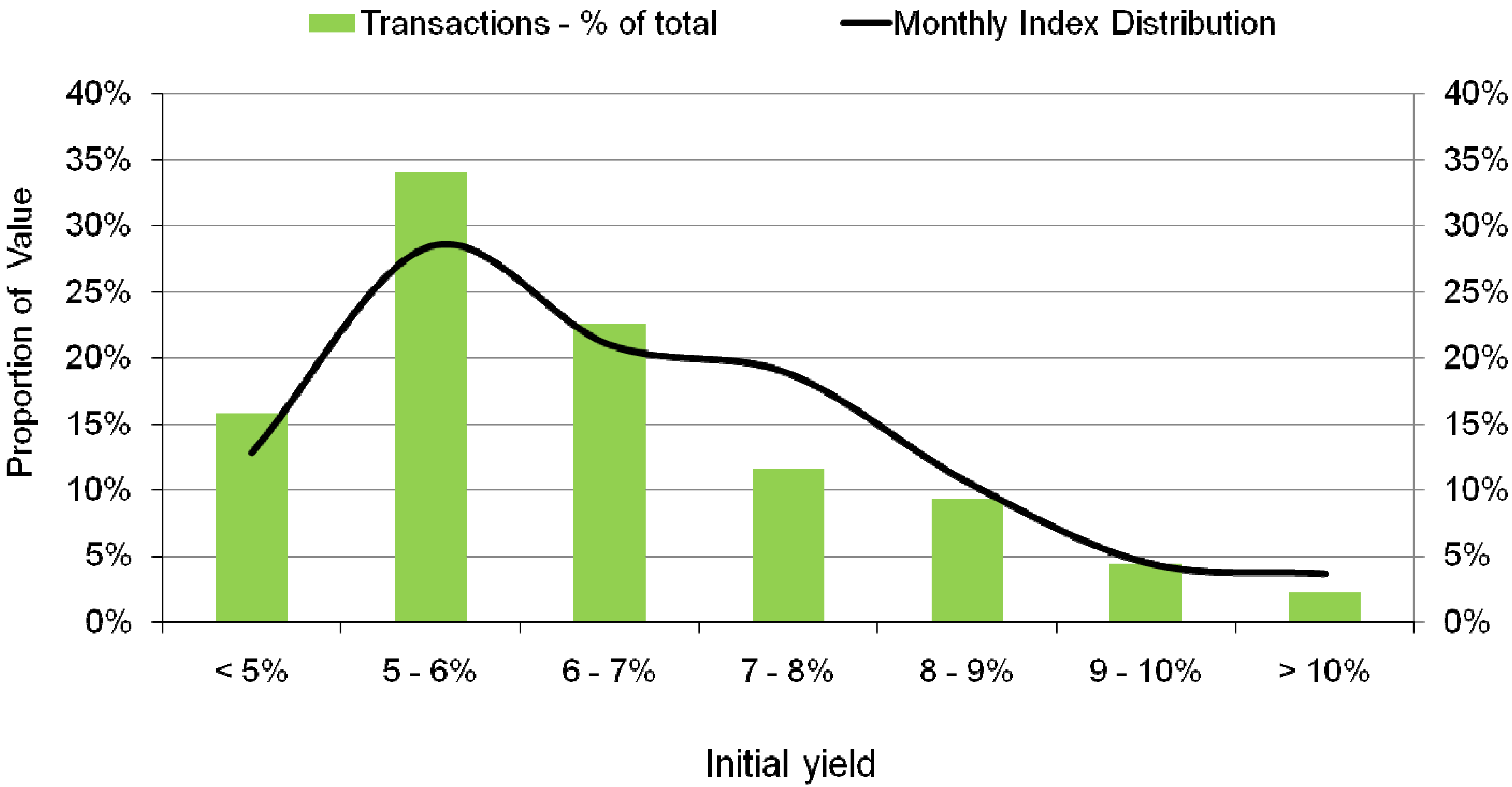
Average benchmark yields (outside Central London)



Sources: CB Richard Ellis Monthly Yields

Transaction Volumes: Yield Profile

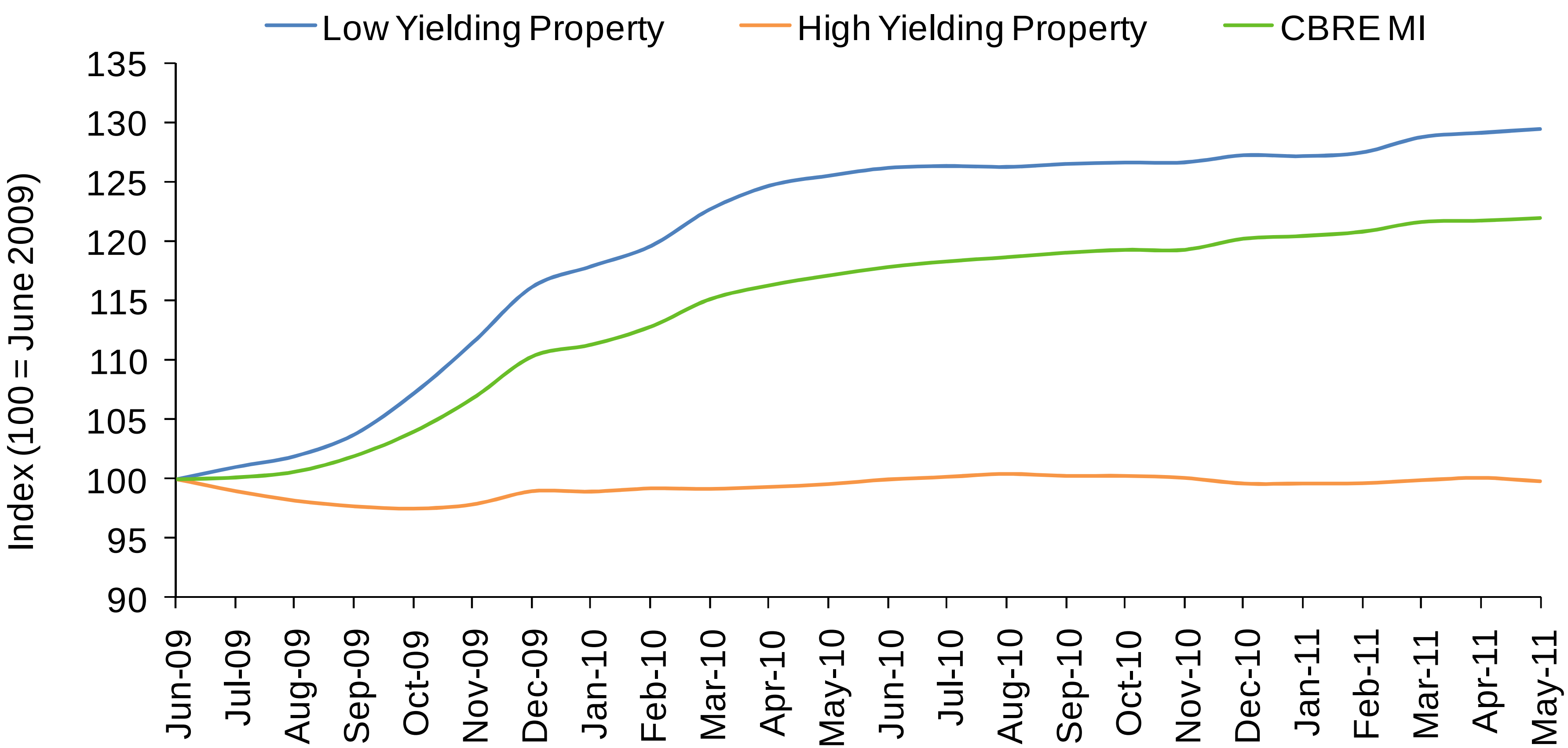
Year to May 2011



Source: Property Data, CB Richard Ellis

All Property Capital Values

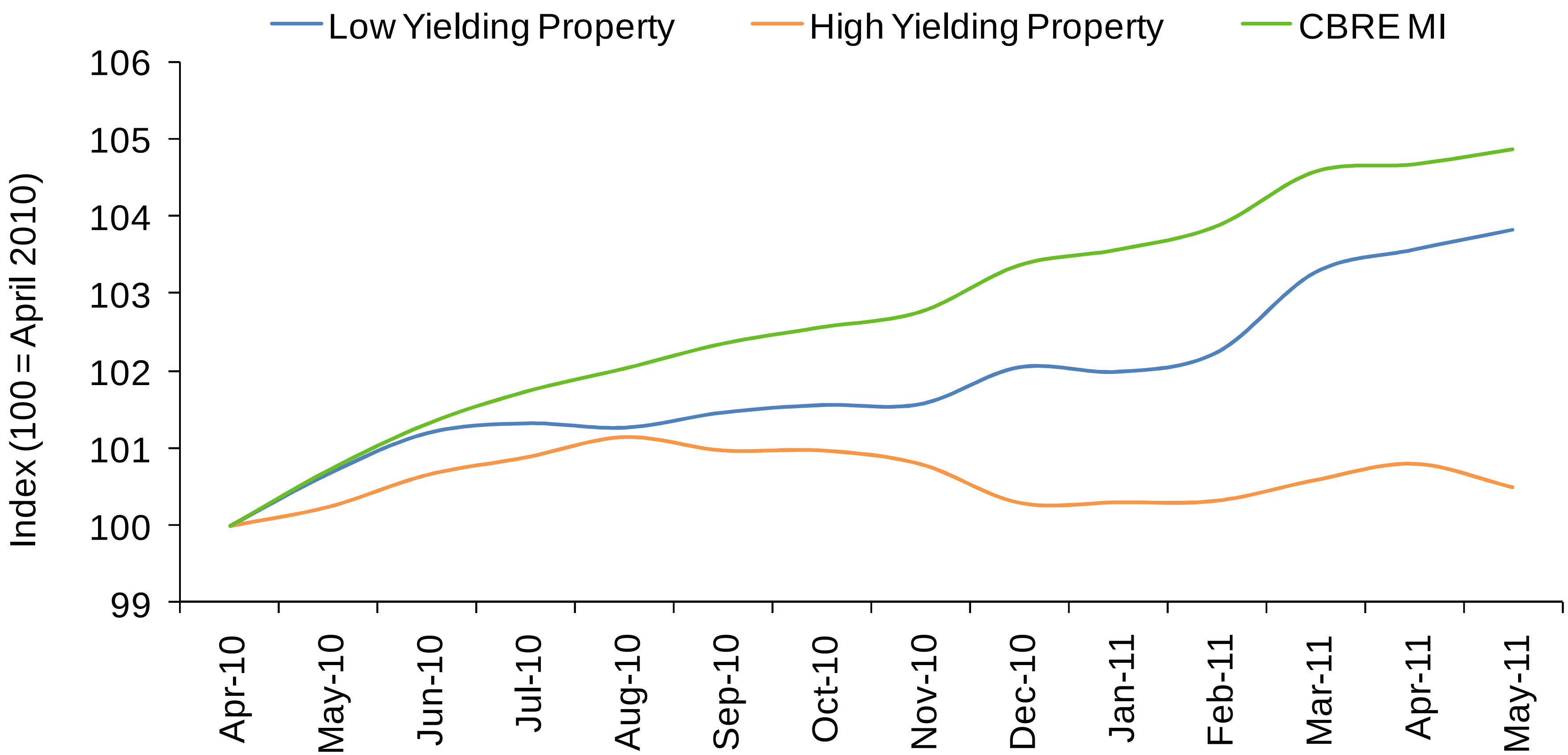
June 2009 - May 2011



Source: CB Richard Ellis Monthly Index

All Property Capital Values

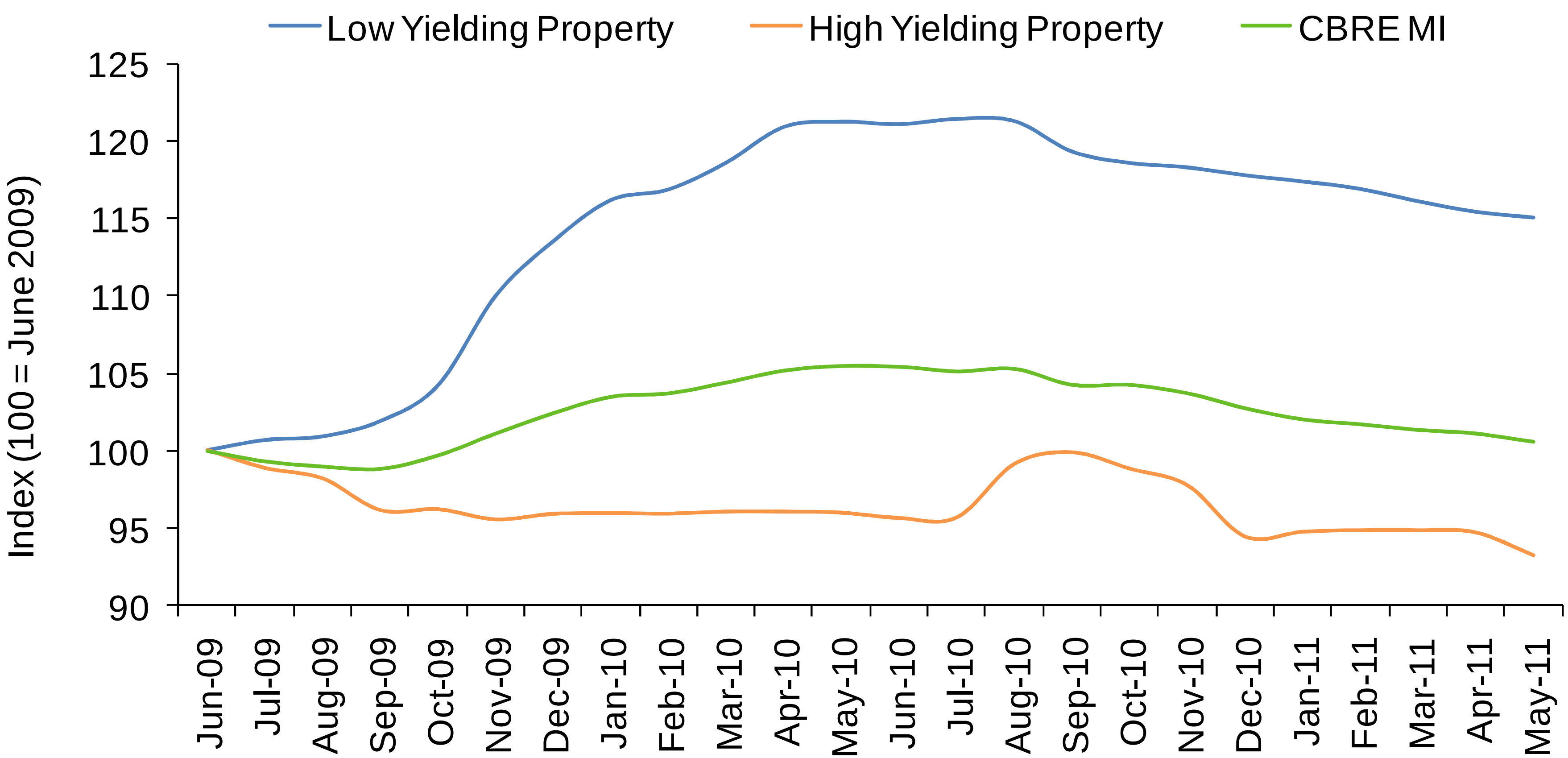
‘Average’ overtakes ‘prime’ since April 2010



Source: CB Richard Ellis Monthly Index

Rest of UK Offices: Capital Values

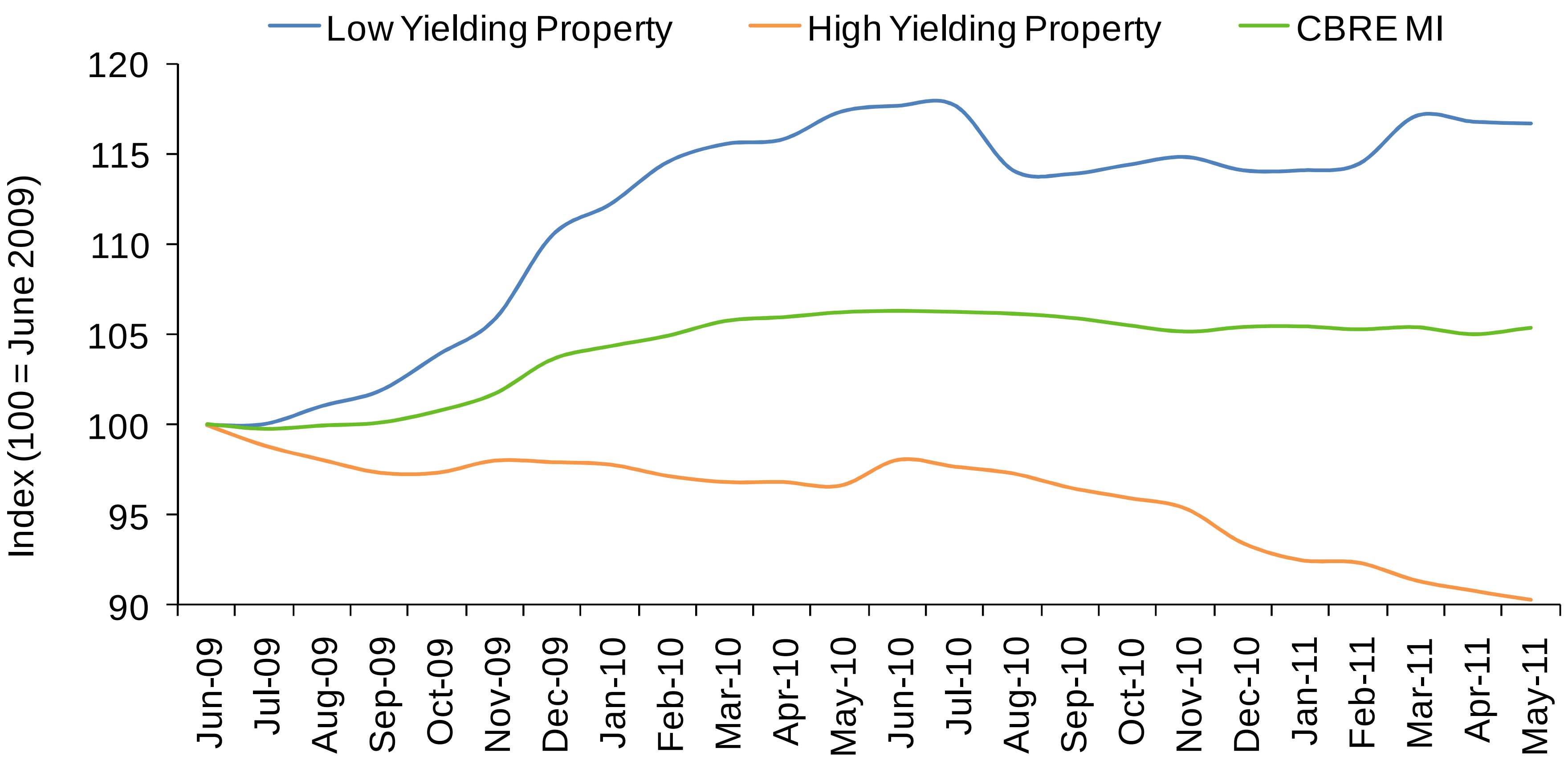
Weaker trend since Q3 2010



Source: CB Richard Ellis Monthly Index

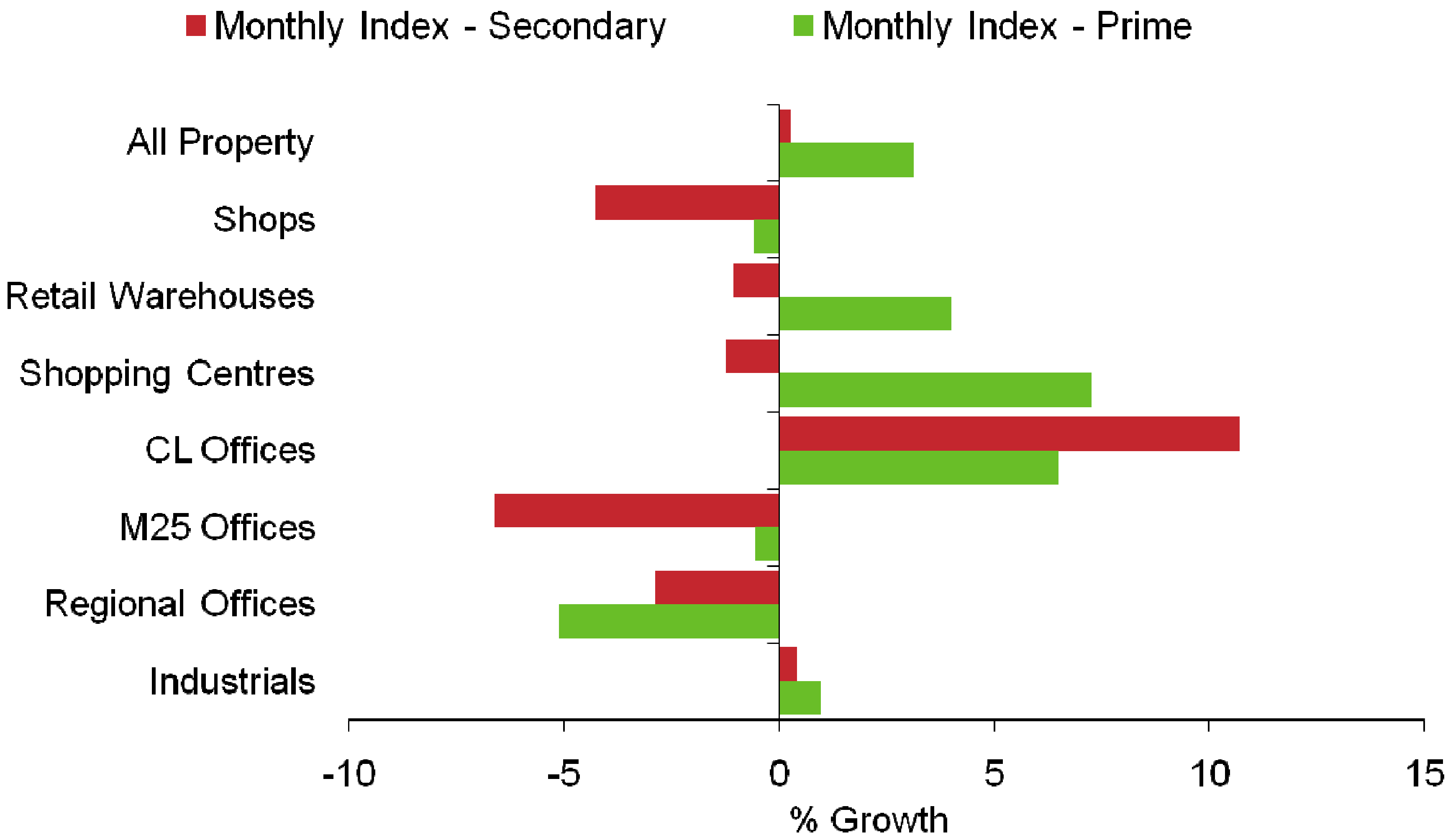
South East Offices: Capital Values

High yield secondary still on the slide



Source: CB Richard Ellis Monthly Index

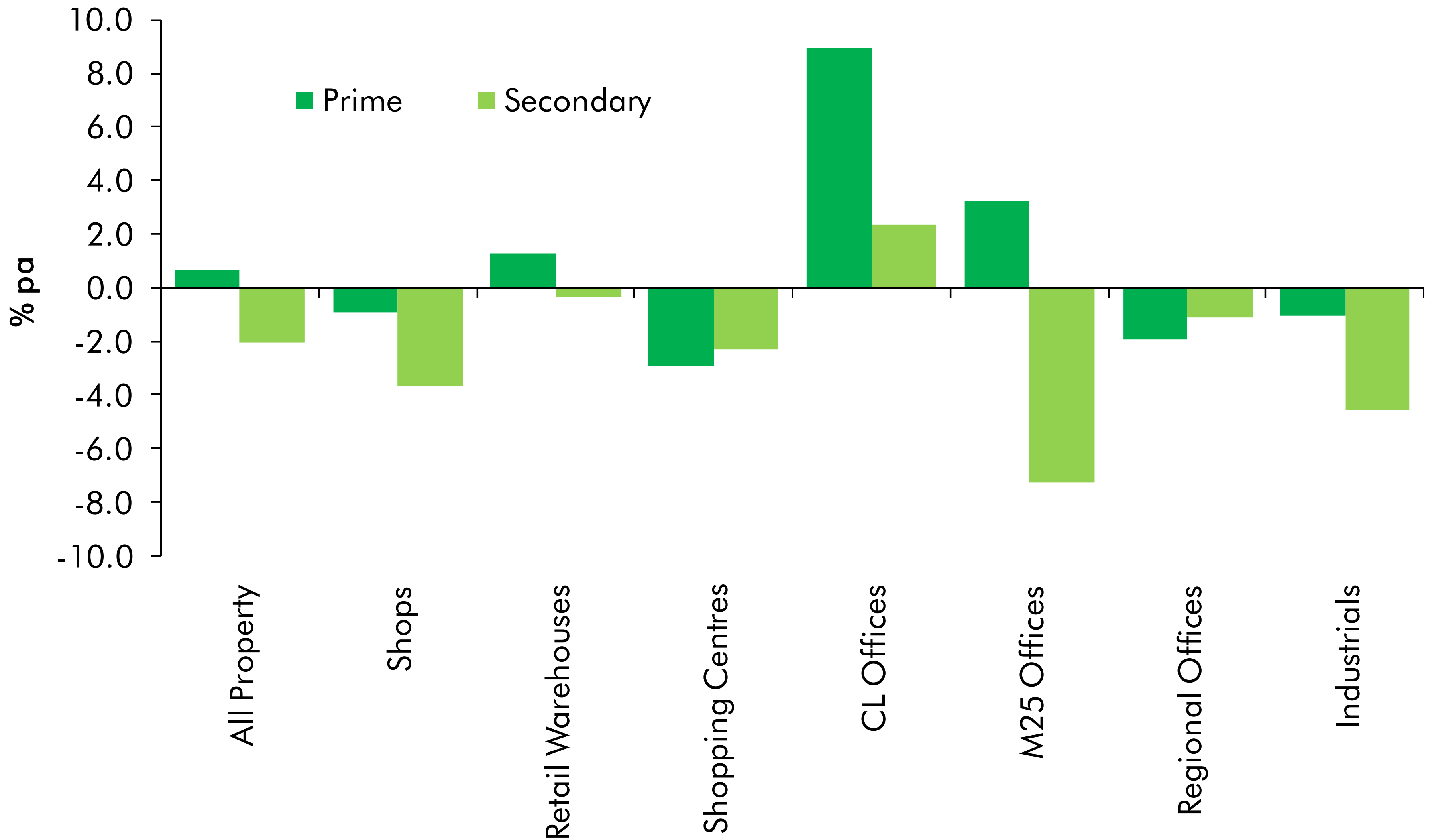
Capital Value Changes: Year to May 2011



Source: CB Richard Ellis Monthly Index

Rental Growth: Prime vs Secondary

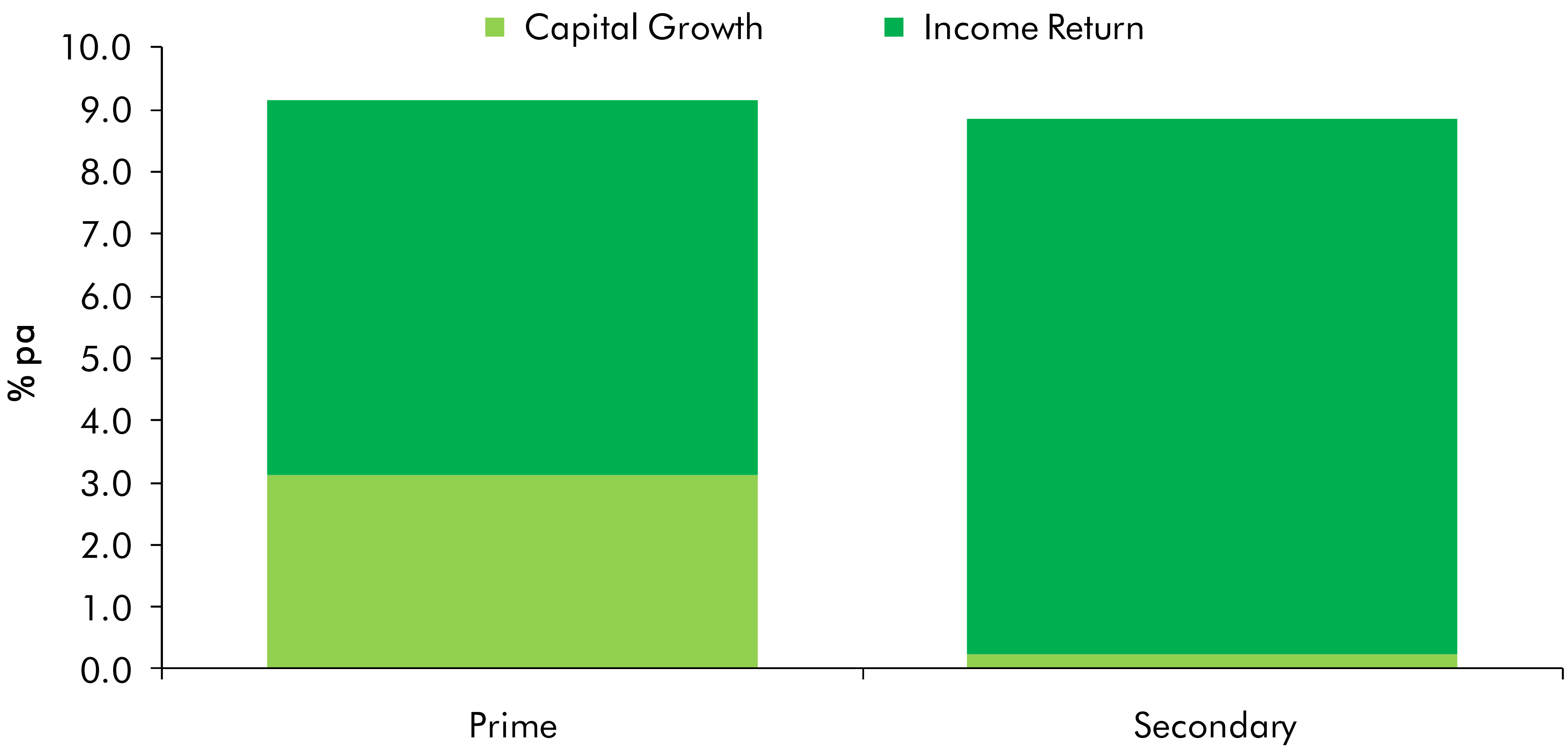
Year to May 2011



Source: CB Richard Ellis Monthly Index

Capital Growth & Income: Prime vs Secondary

Annual to May 2011



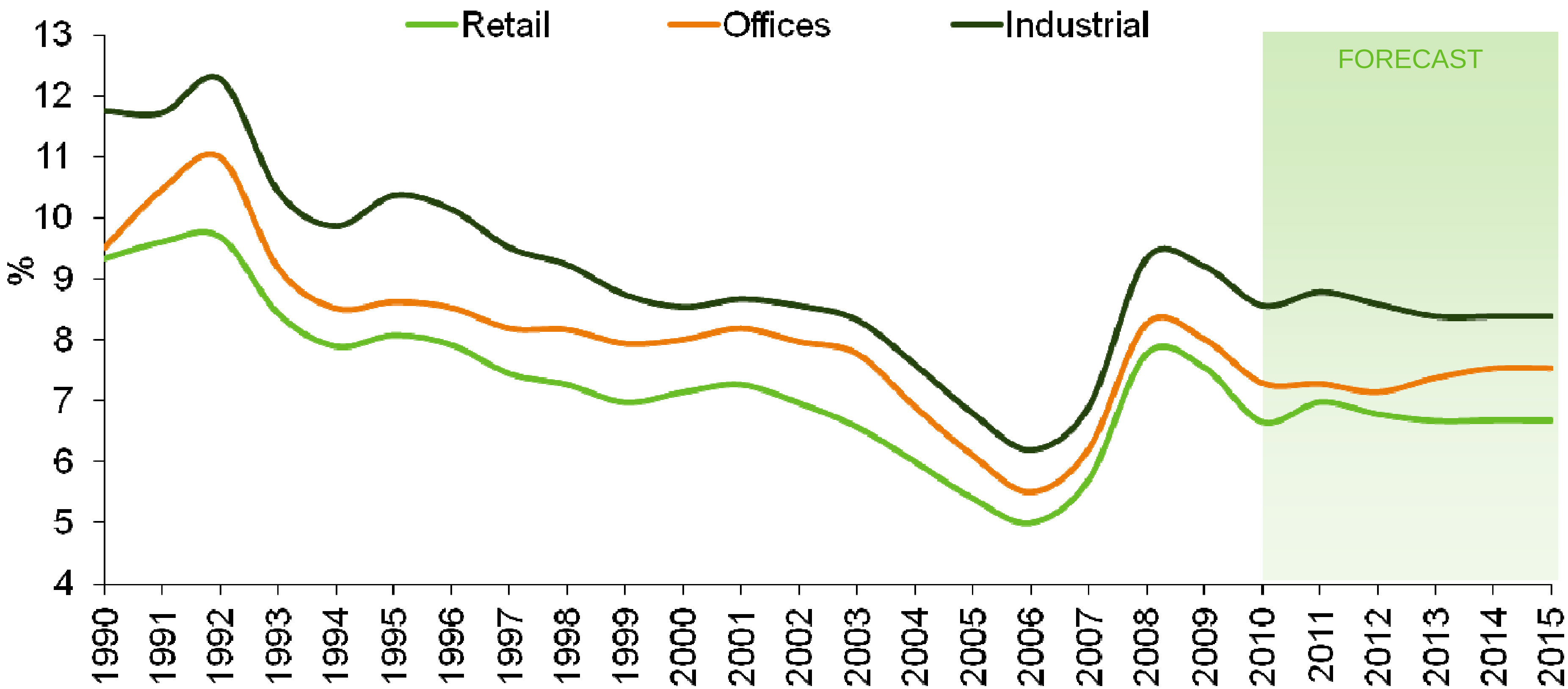
Source: CB Richard Ellis Monthly Index

Key Market Trends

- Prime yields going sideways
- Good secondary: most improvement recently
- Secondary doing better in London
- ..... high yielders flagging elsewhere
- Weakest secondary markets in shops and offices outside London
- Rental growth slow to appear outside London
- Scarcity of new supply favours prime

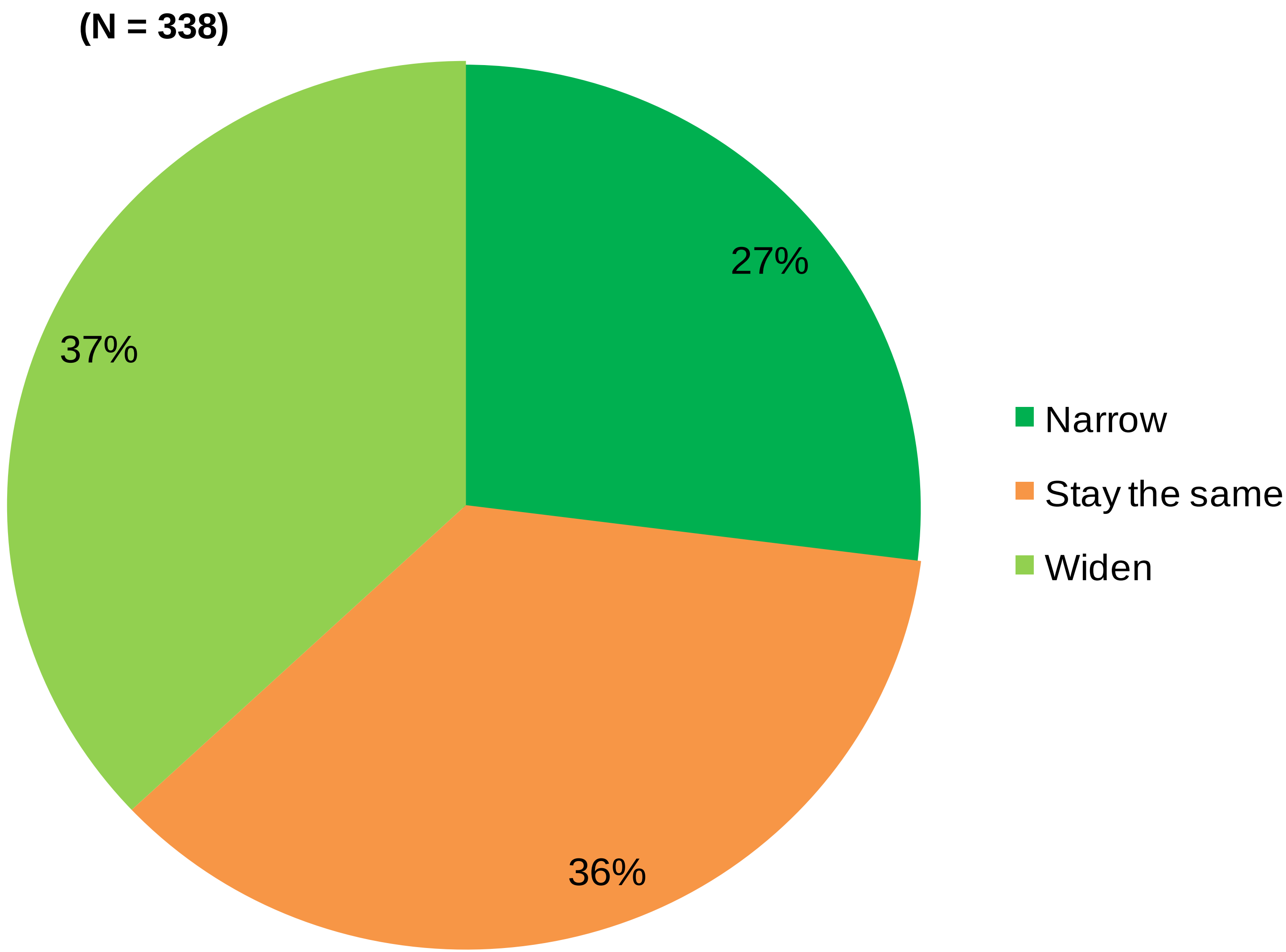
IPD Portfolio Equivalent Yields

CBRE Forecasts



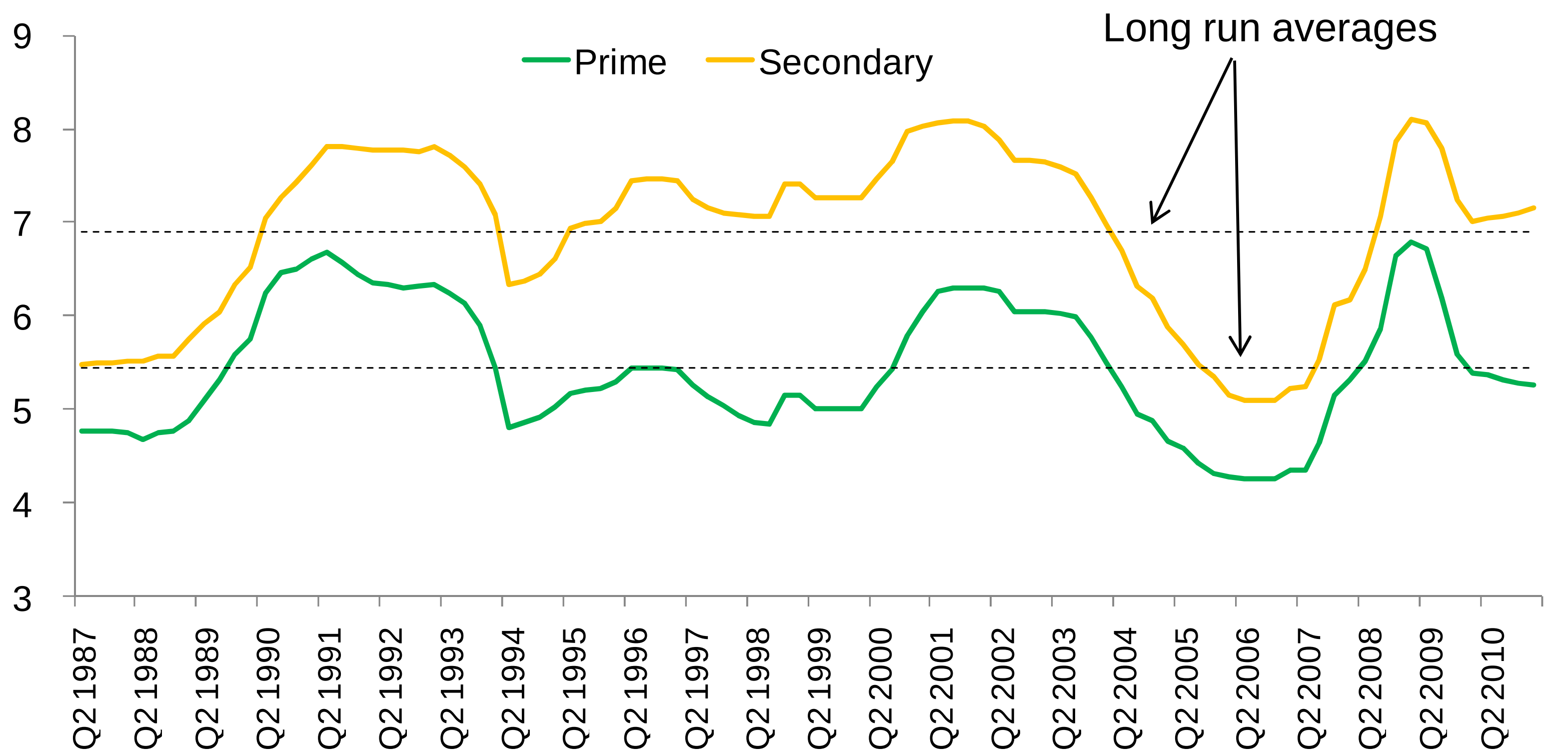
Source: IPD, CB Richard Ellis

“What Will Happen to the Prime-secondary Yield Gap in 2011?”



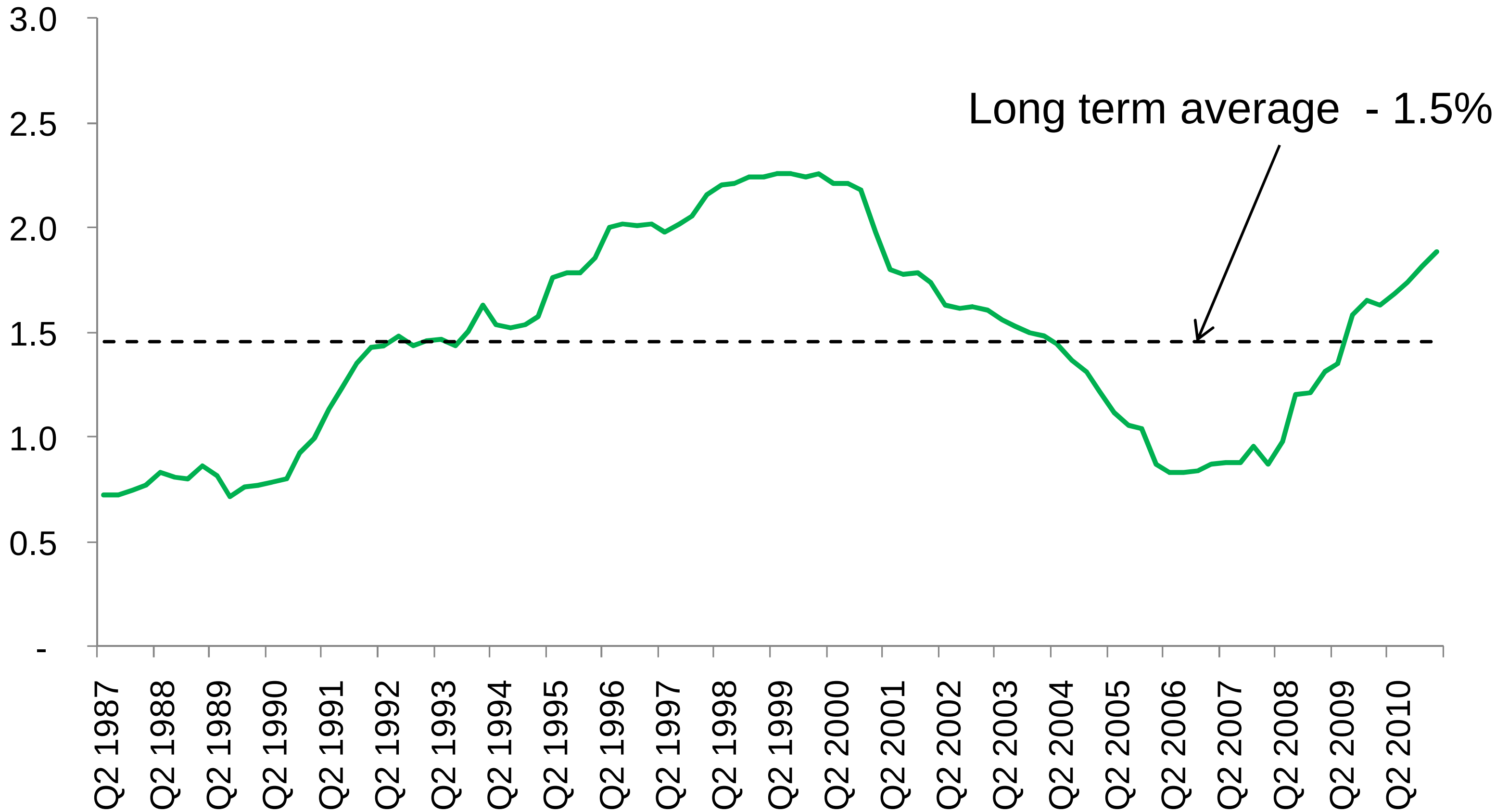
Source: CB Richard Ellis, European Investor Intentions Survey, February 2011

Prime Shop Yields: Prime v Secondary Town Averages



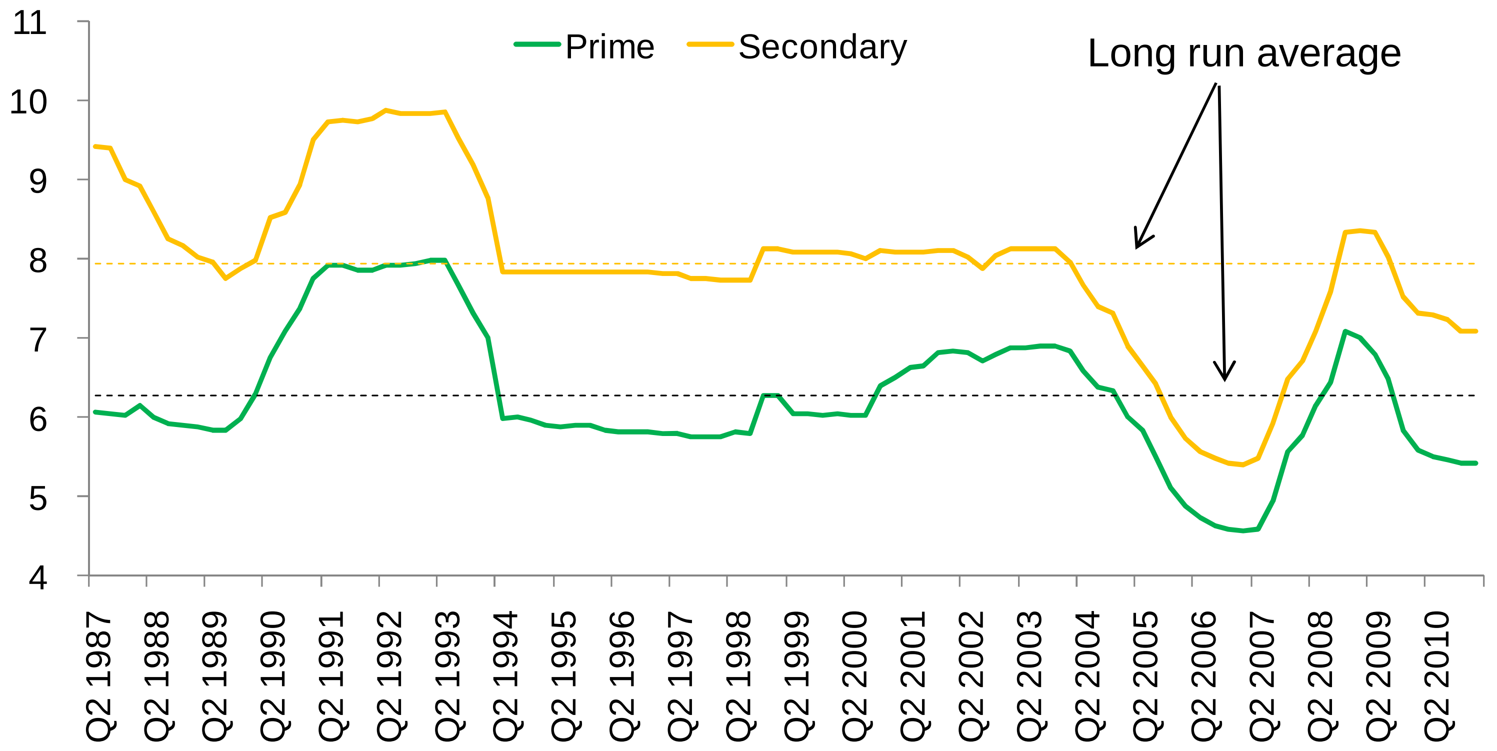
Source: CBRE

Secondary Town Shop Yields: Difference from Prime



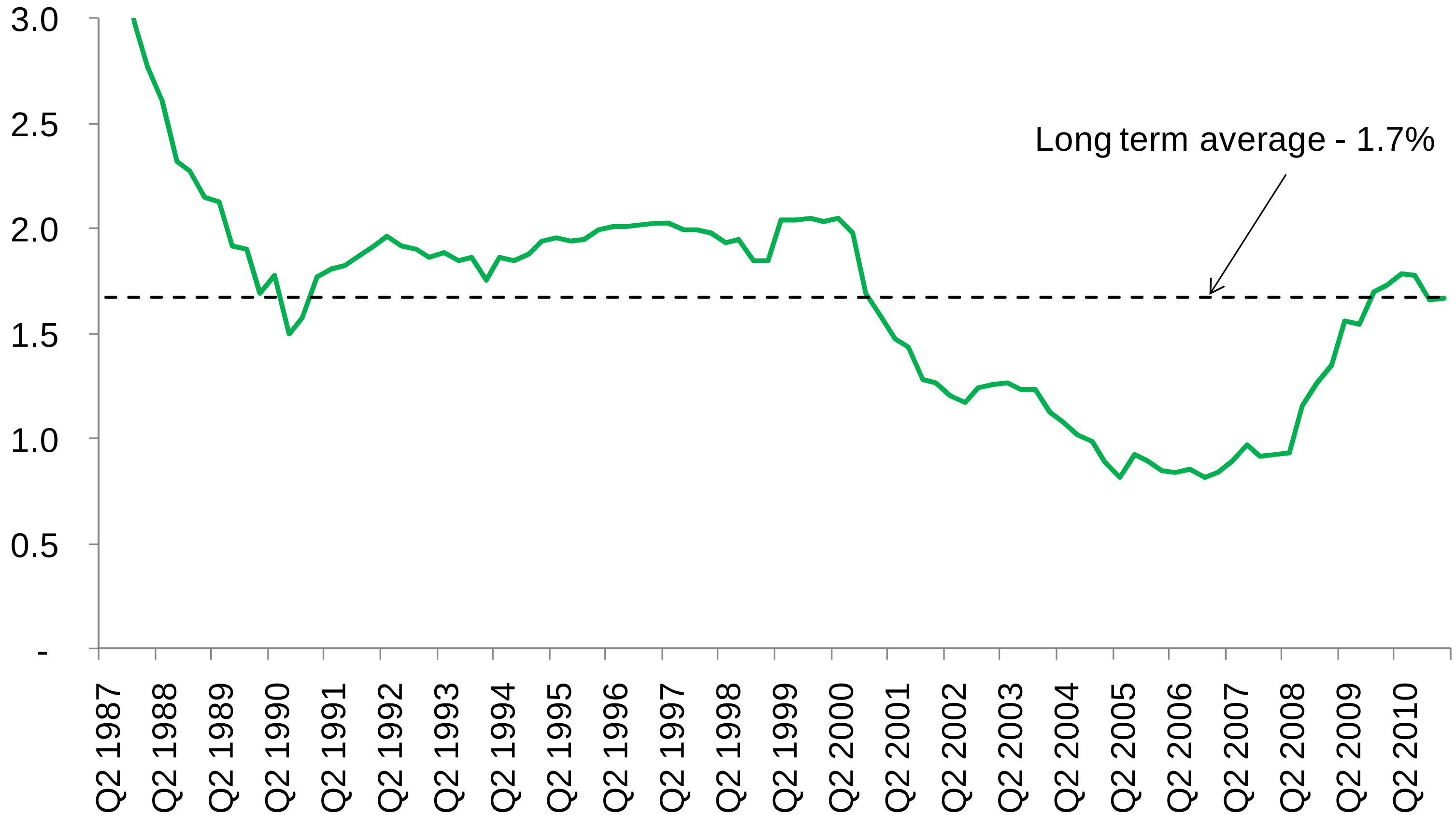
Source: CBRE

Prime Office Yields: Prime v Secondary Town Averages



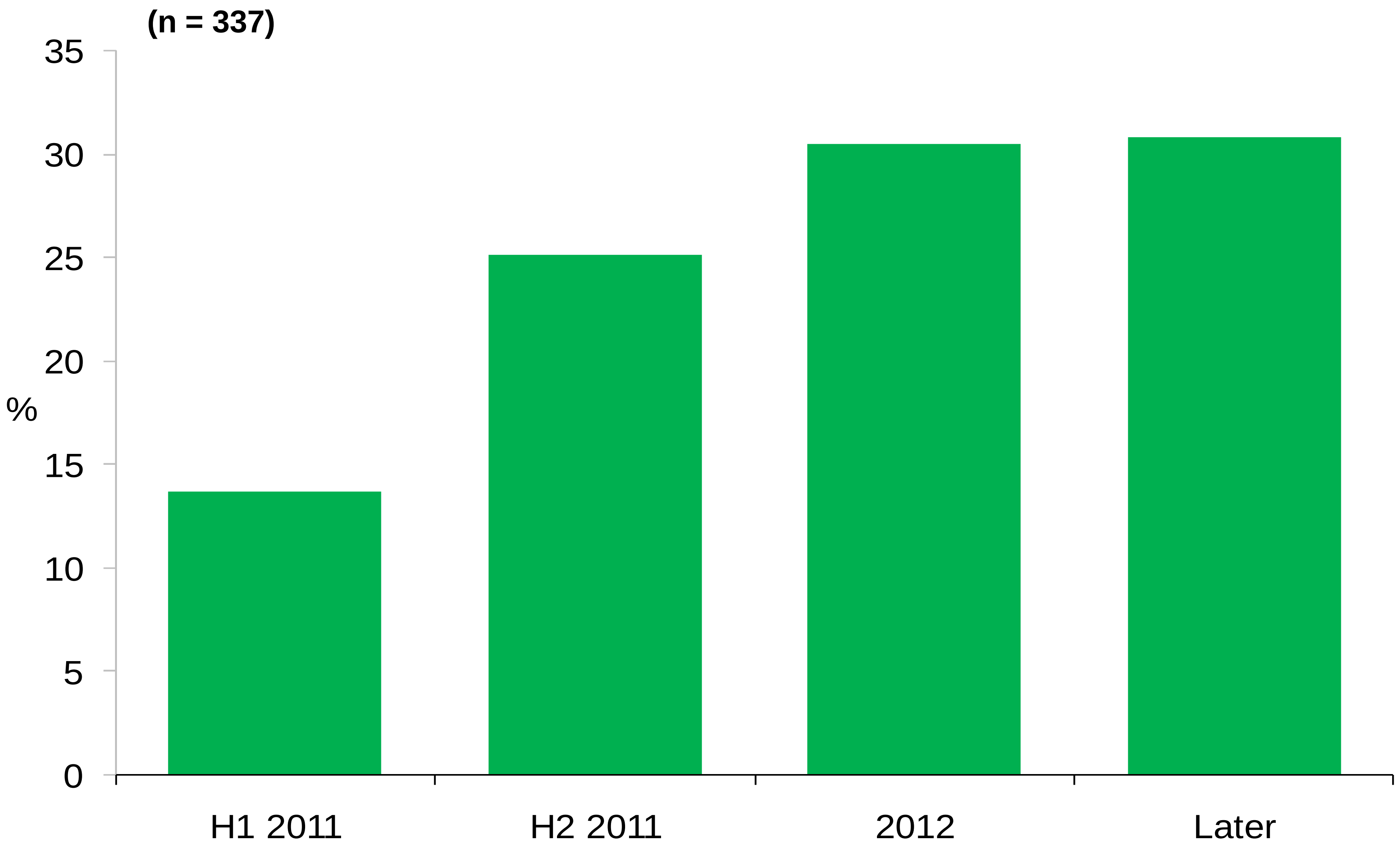
Source: CBRE

Secondary Town Office Yields: Difference from Prime



Source: CBRE

“When Will Be The Right Time For You To Invest In Secondary Property?”



Source: CB Richard Ellis, European Investor Intentions Survey, February 2011

Outlook for Secondary

- **“The good, the bad and the ugly”**
- **Slow, bumpy recovery : muted average rental growth**
- **Obsolescence and structural voids**
- **Yield gap persistence – 2006-07 not the norm**
- **Secondary values getting little support from market trends**
- **Investor demand conditional on ...**
  - Debt availability
  - Asset management
  - Risk appetite

Discussion Panel

Philip Cropper
Managing Director, Real Estate Finance

Adrian McStay
Managing Director, UK Regions

Tim Perkin
Senior Director, Real Estate Finance

CASE STUDY

PROJECT GOLD

ASSETS

- 81 office assets across the UK
- 66% vacant
- 2 year rent guarantee expiry within 6 months
- Empty rates liability £1.3 million pa

VALUES & LOAN

- Value at purchase £70 million
- Loan £48 million
- Value of assets in 2008 £10 million
- Borrower - syndicator
- Receivership instruction to asset manage, liquidate and return proceeds to bank
- We managed and transacted all assets within 18 months

PROCEEDS

- £25 - £30 million