cPad MARKET FLASH

Commercial Property Auction Data

SEPT 2011

WELCOME TO THE FIRST cPad MARKET FLASH

By drawing together the unrivalled market data of IPD and EIG together with Acuitus's unique view as the leading specialist independent auctioneer, cPad places the commercial property auction sector into the context of the wider investment market place.

cPad Market Flashes will give invaluable perspectives for everyone involved in commercial property investment. Inside you'll find key economic data and also insights into key market indicators.

Across the current market, there is still a lack of good quality investments and properties offering active management potential. For this type of property demand continues to exceed the limited supply.

For all other properties prices are continuing to fall and sales will only go through if prices fully reflect today's economic circumstances. The good news is that there are buyers for almost every type and that the auction room presents clear opportunities whether you are buying or selling.

We expect sales volumes to rise as more distressed stock is offered. A large number will be offered at high yield and overall there will be no improvement in prices.

We hope you find cPad a useful source of information and would be delighted to get your feedback. Please do not hesitate to contact us.

cPad

cPad is a joint initiative between Acuitus and IPD utilising auction sales data from EIG to provide a unique perspective on the commercial property market for private investors and private property companies. The aim is to create a valuable snapshot of today's market and help investors shape their future investment strategy.

KEY STATS

▼ **17%** Sales Volume

▲ **74%** of sales were retail properties

▲ **80%** Sales Rate

▲ **8.0%** average initial yield

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Real Estate Auctioneering & Investment

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On the pulse of the property world

IPD

ACUITUS AUCTION COMMENTARY

In the room: valuable evidence

Activity levels in commercial property auction rooms were broadly maintained through the spring but summer brought a fall in the number of lots offered which was illustrated by the July auction results.

However, the percentage of properties selling has steadily increased as the year has progressed.

Including post auction sales, the overall auction sale rate is now above 80% - which is close to the historic long-term average. Closer inspection of this statistic reveals that almost 100% of London properties and prime assets sold. For more secondary, regional assets, the average sale rate drops to around 70%.

This improvement in sale rates has been due mostly to the changed price expectations of vendors and valuers. Growing evidence from other sales and lettings has enabled a clearer understanding of where prices are today. Investors are accepting that while wholesale recovery may be a long way off that does not mean there are not opportunities for locking into future growth.

Retail remains the asset of choice with this type of asset accounting for 74% of sales in the year to date. The average lot size is £546,000 - with an increasing percentage of sub £500k lots.

In the market: yields remain weak

Yields have weakened throughout 2011 with the cPAD All-Property Yield currently standing at 8% - up 30 basis points from May and 80bp from February.

Retail yields not surprisingly mirrored the rise in the All-Property Yield with the current cPad Retail Yield standing at 7.9% having risen 70bp since February.

COMMERCIAL AUCTION SALES SUMMARY

		July 2011	May 2011
Volume (£ million)	▼	62.3	77.0
Properties Sold	▼	122	131
Average Lot Size (£)	▼	510,605	588,092
Sales Rate	▼	72.7%	73.9%

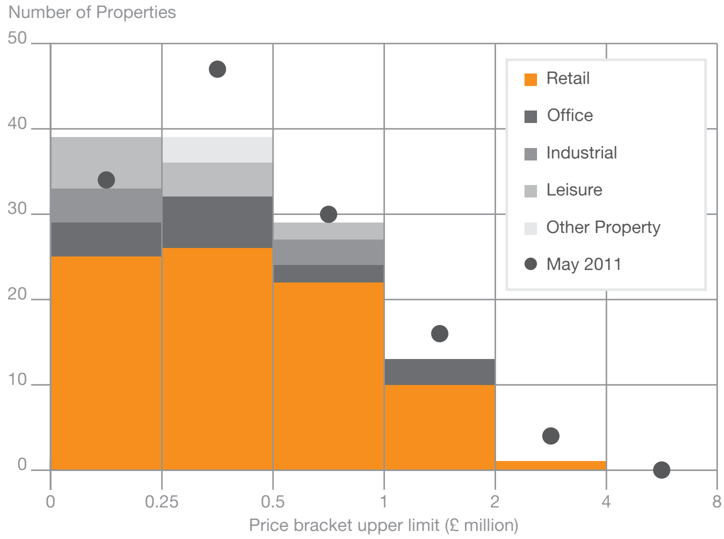
COMMERCIAL AUCTION SALES, £ MILLION

Sector		July 2011	May 2011
Retail	▼	45.9	48.0
Office	▼	8.1	13.4
Industrial	▼	2.6	4.5
Leisure and Other	▼	5.2	11.2
Region		**July 2011**	**May 2011**
London	▼	17.7	20.9
Rest of UK	▼	44.6	56.1

COMMERCIAL AUCTION SALES RATE, %

Sector		July 2011	May 2011
Retail	▼	69%	73%
Office	▲	89%	80%
Industrial	▲	100%	75%
Leisure and Other	▼	69%	72%
Region		**July 2011**	**May 2011**
London	▲	91%	83%
Rest of UK	▼	68%	72%

COMMERCIAL AUCTION SALES BY PRICE BAND



ACUITUS AUCTION COMMENTARY continued

The best

The most favoured investments are characterised by their location (London and South East) and a reasonable length of unexpired lease. A combination of these characteristics can produce a yield which is almost 200 basis points keener than the cPad All-Property Yield.

London has regained much of the value loss it suffered in 2008-2009, and its current popularity with investors cannot be overstated.

The sensitivity of investors to lease lengths is illustrated by the fact that the yield on a property with an unexpired lease term of 15+ years will be around 70bp keener than a property where the lease has less than five years to run.

The rest

Given that auction sales are dominated by retail assets, the well-publicised problems of the High Street can only lead to further uncertainty.

We expect retail yields to continue to rise as investors remain concerned about the difficulties that retailers are experiencing and the extent to which current rents will need to fall to retain tenants or attract new ones.

Retail yields for over-rented properties with less than five years unexpired in secondary town centres average 8.5%. This type of property accounts for around a quarter of assets traded in the auction room.

Outlook

The “new realism” in the property investment market is in stark contrast to the volatility in the equity markets, and should mean that an increasing number of investors will make their way to the commercial property auction room.

Investors are taking an increasingly forensic approach: looking not only at strength of covenant but also the general prospects for the business sector in which occupiers operate.

They realise that longer leases and upwards-only reviews are only of value if the tenant stays in business. It is a time of very differing opinions. In any investment market that can only mean that over the long-term there are opportunities to capitalise on.

Commentary: Acuitus

YIELD SUMMARY

All Commercial Property Totals		July 2011	May 2011
Average Initial Yield	▲	8.0%	7.7%
Lower Yield Quartile	▲	6.3%	6.2%
Upper Yield Quartile	▲	8.8%	8.5%
Yield by Unexpired Lease Term			
0-5 years	▼	8.5%	8.7%
6-15 years	▲	8.0%	7.6%
16 years +	▲	7.8%	7.7%
Yield by Value Band			
£0 - £250,000	▲	8.8%	7.6%
£250,000 - £500,000	▲	8.1%	7.4%
£500,000 - £1 million	▼	7.5%	8.4%
£1 million +	▲	7.4%	7.3%

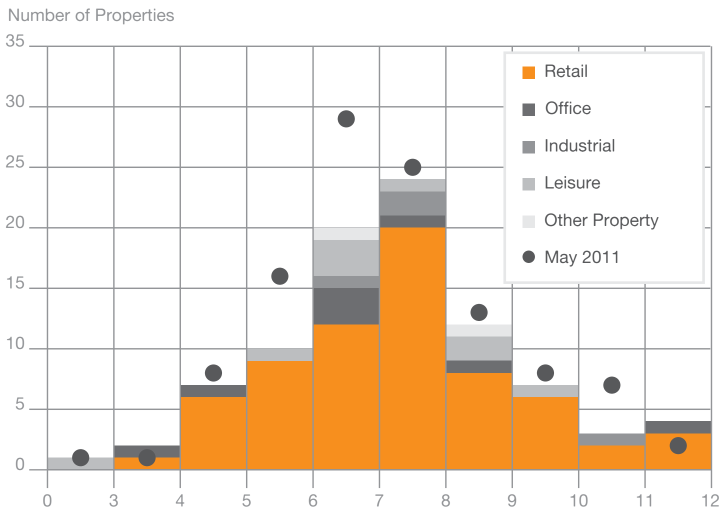
YIELD SUMMARY BY SECTOR

All Commercial Property Totals		July 2011	May 2011
Retail	▲	7.9%	7.5%
Office	▲	9.7%	7.7%
Industrial	▲	8.0%	7.5%
Leisure and Other	▲	6.9%	6.7%

YIELD SUMMARY BY REGION

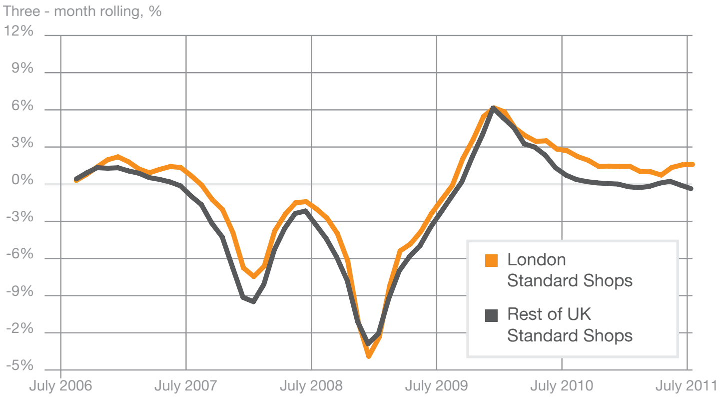
All Commercial Property Totals		July 2011	May 2011
London	▼	6.6%	6.7%
Rest of UK	▲	8.5%	7.6%

SUMMARY BY YIELD BAND



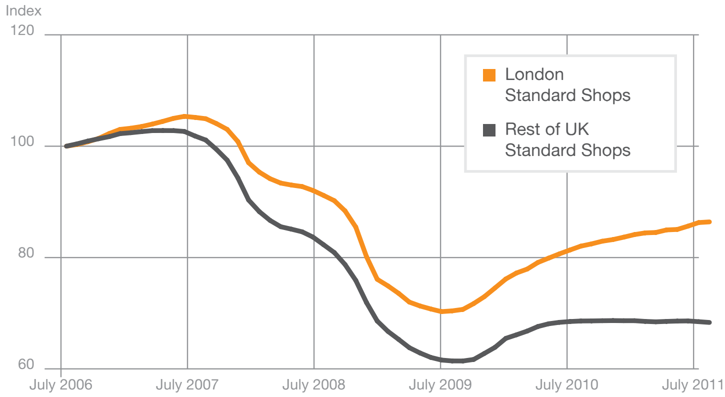
STANDARD SHOPS
THREE-MONTH ROLLING CAPITAL VALUE CHANGE, %

Source: IPD UK Monthly



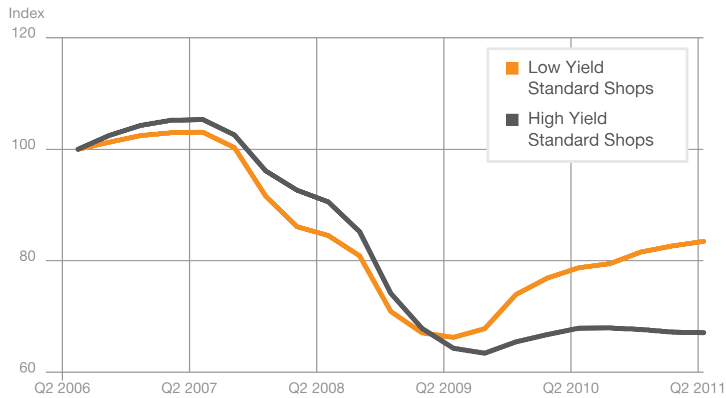
STANDARD SHOPS
CAPITAL VALUE INDICES BY REGION, MONTHLY

Source: IPD UK Monthly



STANDARD SHOPS
CAPITAL VALUE INDICES BY YIELD, QUARTERLY

Source: IPD UK Quarterly



IPD PROPERTY MARKET COMMENTARY

Capital growth limited to prime shops

A weakening economy has dampened commercial property's recovery. At its height, the recovery of standard shops saw capital growth reach over 6% q/q in London but this is now down to 1.6% q/q. Outside of London, away from the influence of tourism and the more affluent consumers, the declines in consumer and retailer confidence have taken their toll on the High Street. Capital values have seen a mild fall in four out of the last seven months, leaving growth at -0.4% q/q in July.

From mid-2007 to mid-2009, London shops saw values fall by 33% whereas across the rest of the UK they fell by 40% over the same period. The recovery in the two geographies started in unison but has since followed differing paths. London has maintained its capital value growth since the trough, totaling 22% to July 2011. Accordingly, London shops have regained around half of their lost value. The rest of the UK saw values increase by 11% from the trough to mid-2010, or around a fifth of the value lost in the crash, but since then values have stagnated.

A similar pattern can be seen between high and low-yielding standard shops. Low-yielding assets (the bottom quartile of the sample by equivalent yield and a proxy for prime) saw values fall by 35% in the crash and have recovered 25% to date. High-yielding assets, the top quartile by equivalent yield, fell by 40% and only recovered 6% by Q2 2010, which is back down to 4% in Q2 2011, following the return of value losses. The relationship between high-yielding shop value growth and economic growth is strong. Therefore, given the downward trajectory of the Economic Score Card average (see next page), a question mark remains over the future health of the secondary market.

In particular, the recent downward trend of retailer confidence has added to the concern over tenant default. With capital values starting to stabilise, investors are increasingly focused on their income returns. Understanding a tenant's business and their financial stability is essential given their role in a property's investment performance. Yields are moving out in the auction market which suggests the pricing of heightened tenant risk and weaker value growth is already underway. In the current climate, discount retailers are thriving and some high-end retailers are struggling so the relationship between income risk and return may not necessarily follow a traditional pattern. As a result of this, there are a number of attractive opportunities in the current market due to mispricing.

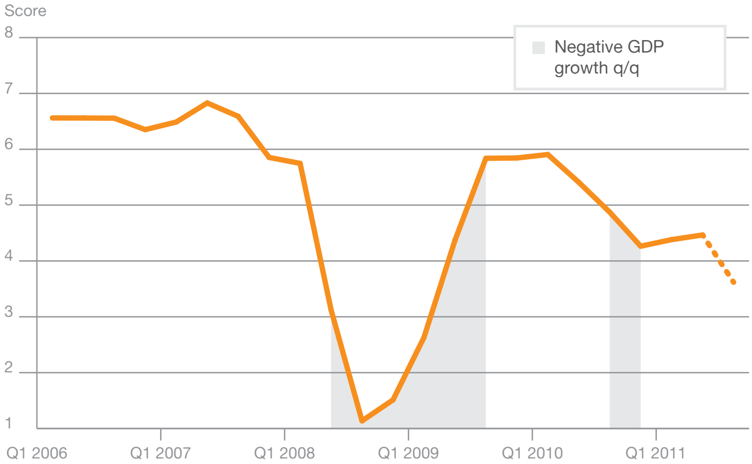
KEY MARKET DATA

Economic Score Card Average

The economic score card average improved to 4.5 in Q2 2011, up from 4.4 in Q1 2011. However, July data shows a sharp decline to 3.6, a similar score to that of Q2 2008, a quarter that saw GDP contract quarter-on-quarter. Retailer confidence was buoyant throughout 2010 but has begun to slip in the face of harsher trading conditions.

The July data only includes the onset of what was a much larger collapse in equity prices. House prices also fell in August. Expectations are for a further decline in the Economic Score Card average and therefore, harsher economic conditions for consumers and retailers alike.

ECONOMIC SCORE CARD AVERAGE



	2006				2007				2008				2009				2010				2011		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Jul
Economic Score Card Average	6.6	6.6	6.6	6.4	6.5	6.8	6.6	5.9	5.7	3.1	1.1	1.5	2.6	4.4	5.8	5.8	5.9	5.4	4.9	4.3	4.4	4.5	3.6
Inflation (CPI y/y)	7	6	6	4	4	6	7	7	6	2	1	4	5	7	5	5	3	4	4	2	1	1	1
FTSE All Share (q/q)	7	6	7	7	7	7	6	7	4	5	1	1	5	7	7	7	7	5	7	7	7	7	6
Nationwide House Price Index (q/q)	7	7	7	7	7	7	5	4	3	1	1	1	4	7	7	5	6	7	3	2	6	7	7
Consumer Confidence	7	7	7	7	7	7	7	7	6	1	1	1	1	2	6	6	7	5	3	2	1	3	2
Unemployment Expectations	7	6	5	6	7	7	7	7	7	5	2	1	1	1	3	4	5	4	3	3	2	4	4
Retail Trade Confidence	5	7	7	7	7	7	7	5	7	4	1	1	1	4	7	7	7	6	7	7	7	5	3
Expected Retail Trade	6	7	7	7	7	7	7	4	7	4	1	1	1	2	6	7	7	7	7	7	7	5	3

Source: IPD, ONS, EcoWin, Nationwide

Score card key

7	6	5	4	3	2	1
Fully Functioning Market		Partially Functioning Market		Impaired Market Function		Severely Impaired Function

ECONOMIC SCORE CARD VARIABLES

Economic Score Card Variables	Score	July 2011	10-yr avg.	Analysis
Economic Score Card Average	3.6	3.6	5.7	The ESC average fell to 3.6 in July 2011 from 4.5 in Q2 2011. Weak retailer confidence was the main source of the decline.
Inflation (CPI y/y)*	1	4.4%	2.2%	Price falls from summer sales were offset by rises from financial services and housing rent.
FTSE All Share (q/q)	6	-1.3%	0.0%	July saw the start of an equities sell-off. The US and Eurozone struggled to address debt issues.
Nationwide House Price Index (q/q)	7	1.9%	1.8%	July's q/q growth is in line with 10-yr average. Prices rose in six of the last seven months.
Consumer Confidence	2	-18	-8	Consumer morale remains very fragile as unrelenting austerity measures bite.
Unemployment Expectations**	4	43	30	Job security is knocked as ILO unemployment rate rose to 7.9% in the three months to June.
Retail Trade Confidence	3	-15	1	At -15, July's net balance of responses saw a drop of 11 points from June's result.
Expected Retail Trade	3	-14	11	At -14, July's net balance of responses was negative for the first time since Q2 2009.

*Scoring is based upon deviation (either above or below) from the Bank of England's target CPI rate of 2%

**Scoring is inverted. i.e. high value equals low score.

Source: IPD, ONS, EcoWin, Nationwide

The Economic Score Card is an economic indicator tailored to monitor the health of consumers and retailers. For each component, a score of seven is awarded if the data point is greater than its 10-year average. For every third of a standard deviation the data point is below the average, the score is reduced by one. Each score contributes to the overall average, which is weighted using the same methodology as the European Commission's ESI methodology. For further details, email IPD using the contact details found below.

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